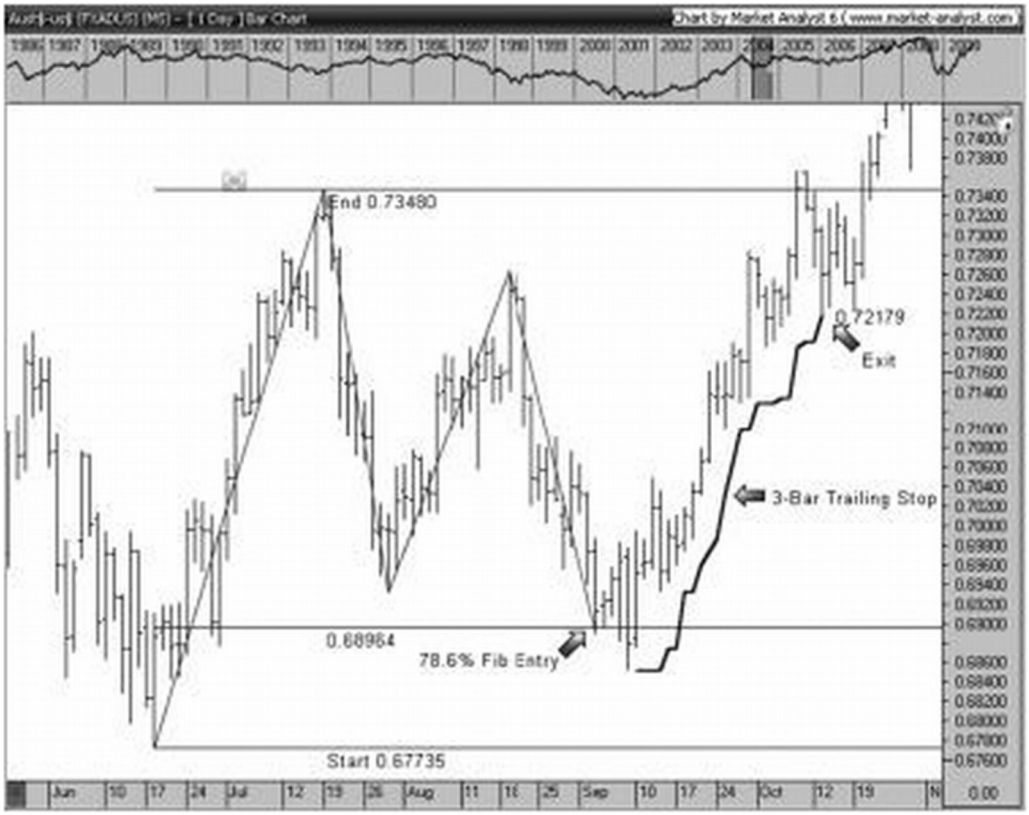

FIGURE 6.9 3-Bar Trailing Stop on a Dairy Chart

TRADING MULTIPLE CONTRACTS

There are many different methods of trade management, and it is a personal preference as to which one an individual chooses. In this section we will discuss two methods of trade management. Both methods include trading with multiple contracts.

The first method we call single in/scale out. The single in/scale out strategy dictates that we enter with a minimum of three contracts at a single price; thereafter, we "scale out" or liquidate positions in thirds.

The second method we call scale in/single out. The scale in/single out strategy is a pure martingale and will double the position size at specified intervals if the position moves against us. Once the position moves in our favor by a single interval, we will liquidate all open positions. The scale in/single out strategy is very aggressive, but it has the highest probability of winning.

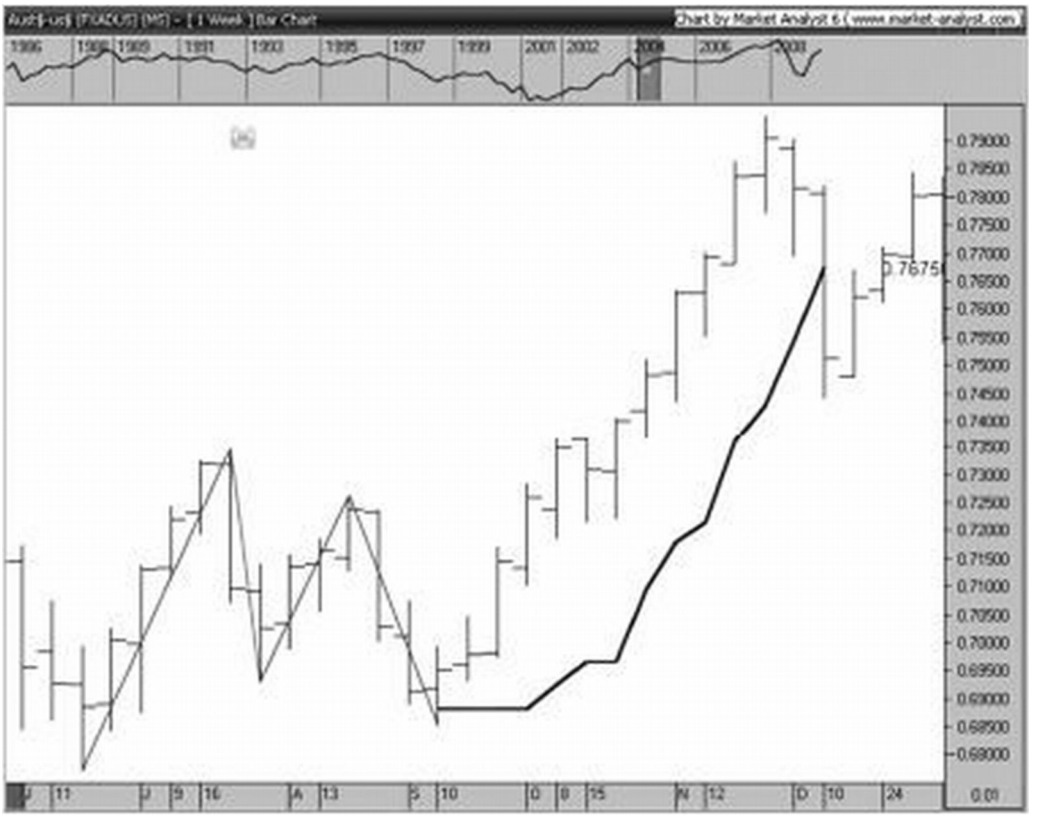

FIGURE 6.10 3-Bar Trailing Stop on a Weekly Chart

Single In/Scale Out

"What type of trader are you? Are you a position trader, a swing trader, or a day trader?" After trying a few different trading styles, we may answer, "I'm a swing trader." Our decision as to what style of trading we choose is often based on our personal preference and our risk tolerance. Each style has its own benefits and drawbacks. For example, the benefit of trading as a day trader is that you are always flat (no positions) at the end of the trading session. In addition, a day trader will get immediate results every day, quick profits earned by scalping the market/ The downside to the day traders' style is that they will never enjoy the possibility of a "ten bagger" (to steal Peter Lynch's description of increasing an initial investment tenfold) like a position trader.

On the other end of the trading style spectrum is the position trader. This style of trading involves keeping a trade on for weeks to months with the hope of capturing a major trend move. The benefits to this style of trading are obvious; it is possible as a position trader to have one of those windfall trades where a $1,000 investment yields

$10,000. The downside to being a position trader is that often the risk on the stops is significant compared with the risk taken by a day trader, who may have tight stops. Furthermore, the position trader will often have to lose several times in a row before arriving at the "windfall" trade.

In addition, there are the moderate swing traders who fit neatly between the day traders and the position traders. These traders like to hold on to a trade anywhere from a few days to perhaps a few weeks. They select the "middle way" (are Buddhists swing traders?)—moderate risk, moderate return.

Most traders eventually find that the middle way of the swing trader suits them best. However, because swing traders sometimes hold trades overnight, they may awake to see that the significant profit of the previous session has evaporated; "Oh, if only I were a day trader!" they may lament. Or sometimes a swing trader may liquidate a position after a few days only to notice that if he had left the same position on for six months, he could have retired; his lament is "Oh, if only I were a position trader!" If you have had these feelings, you are not alone. The answer to this dilemma is to trade with the single in/scale out strategy. The single in/scale out strategy allows you to increase return and reduce risk at the same time.

The single in/scale out strategy allows you the flexibility to have different exit rules for each of the contracts that you have bought or sold. The exit rules for one of the contracts will be "day trader" rules. With the day trader contract, you will quickly be in and out of the market, usually intraday, for a quick profit. Another contract will have "swing trader exit rules"; you will hopefully keep this position on for a day or two or longer to secure additional profits not obtained by the day trader contract. You will also have a contract that will have a "position trader" style of exit. Though this contract doesn't pay out often, when it does, it is significant. (I sometimes refer to this contract as the "lottery ticket contract.")

The single in/scale out strategy works best when entering a position where you know what your initial risk is. If you use market orders with your trading strategy, you won't know what your initial risk is until you get filled, even if your stop level is clearly defined. Ideally, we want to use limit orders and clearly defined stops when using the single in/scale out strategy.

Here are the simple rules for the single in/scale out strategy:

1. **Buy or sell three contracts (or more in multiples of three) at your limit price.** Use a single protective stop on all three contracts. The difference between your entry and your stop is your "initial risk."
2. **Calculate your first target.** Your first, target is 50 percent of your initial risk. Liquidate one position at this level. If you hit your first target, move your protective stop on the remaining two contracts in the direction of the trade by 50 percent of your initial risk.

3. **Calculate your second target.** Your second target is 100 percent of your initial risk. Liquidate one position at this level. If you hit your second target, move your protective stop on the remaining contract to your entry point.
4. **Manage your last position with a trailing stop.** Use a 3-bar trailing stop or some other volatility-based trailing stop on your last contract as long as the trailing stop is not above (for short trades) or below (for long trades) your entry price. In other words, the worst-case scenario with the last contract is getting stopped out at your entry price without a loss. Once you have one contract left, increase the time frame on the chart for your trailing stop. If you initiated your position on an intraday chart, change the time frame for your trailing stop to a daily chart. If using a daily chart, change to a weekly, and so on.

Let's look at the example in Figure 6.11 of the single in/scale out strategy. In this example we have a bullish TCG786 pattern on a daily chart of the AUD/USD spot Forex.

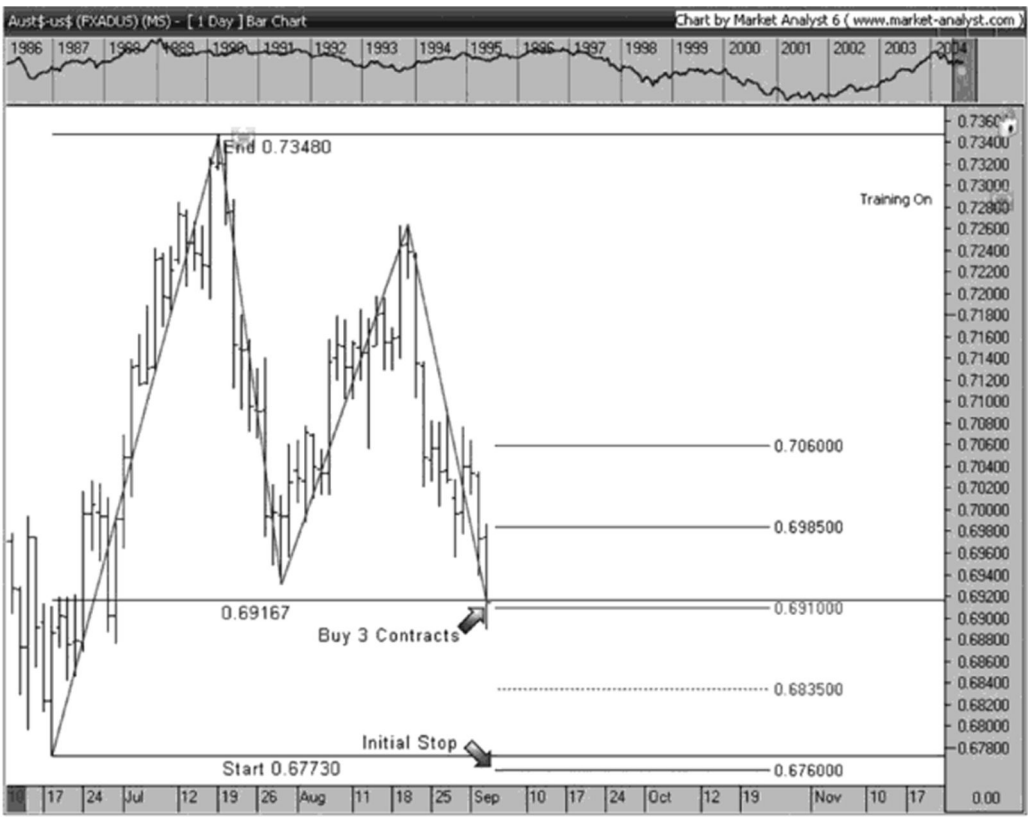

FIGURE 6.11 Single In/Scale Out Targets

We will be using the Fib entry method at the 78.6 percent retracement at .6910, and the initial protective stop is set to just below the beginning of the Gartley Pattern at .6760. The risk on this trade is theoretically set at 150 points per contract As discussed, we will be buying three contracts, which means our initial risk for all three contracts is 450 points. Remember to keep within our risk parameters.

Now that we have our risk defined, we need to set our profit targets. To calculate your first profit target simply subtract your stop price from your entry price. This price differential will define the initial risk per contract. The first target price is 50 percent of your initial risk. In the following example, the initial risk is 150 points per contract. The first target would be 50 percent of 150 or 75 points. If you add 75 to .6910, you get .6985, as seen on the chart. The second target is equivalent to 100 percent of our initial risk. Since our initial risk per contract is 150, we can calculate our second target by adding 150 points to our entry price of .6910 to give us .7060.

Let's assume that we have been filled at .6910 on Figure 6.11. The worst-case scenario after our fill would be that the market drops like a stone and we get stopped out at .6760 and lose 450 points. However, the likelihood of that event is low. Why? Because the most probable event in this situation is that the AUD/USD will hit your profit target first. The reason for that outcome is not due to the magic of the Gartley Pattern but rather to cold hard statistics. Once the position is filled at .6010, there is a higher probability that the market will trade at .6985 rather than .6760, given that the first profit target is half the distance from our entry price compared to where our stop is located. What this means is more often than not, we will hit our first target out of sheer randomness. However, there are two additional reasons why the first target should be hit. As H.M. Gartley mentioned in *Profits in the Stock Market* regarding his namesake pattern, "In eight out of ten cases wherein each of these specific conditions occurs, a rally, which win provide a worthwhile profit ensues." In other words Gartley is letting us know that his pattern should win more than it loses.

The second reason why we should hit the first target before getting stopped out is the increase of volatility that usually accompanies a retest of a recent high or low. Usually, a market wont rip through significant support or resistance levels without first testing the recent high or low. It is at this moment of uncomfortable indecisiveness that volatility will typically increase before a break or bounce takes place. Therefore, it is very common to hit the first profit target when this type of volatility is displayed at the completion of a TCG786 pattern or a TRG786 pattern.

As expected, we have hit our first target at .6985 in the chart in Figure 6.12. At this level we need to liquidate one of our positions with a 75-point profit. Our net position now is long two contracts. Rather than leaving our stop down at .6760, we need to move it up 50 percent of our initial risk (150 x .5 = 75) or 75 points to .6835. We have now reduced our risk by 83 percent. Our risk on all three contracts initially was 450 points

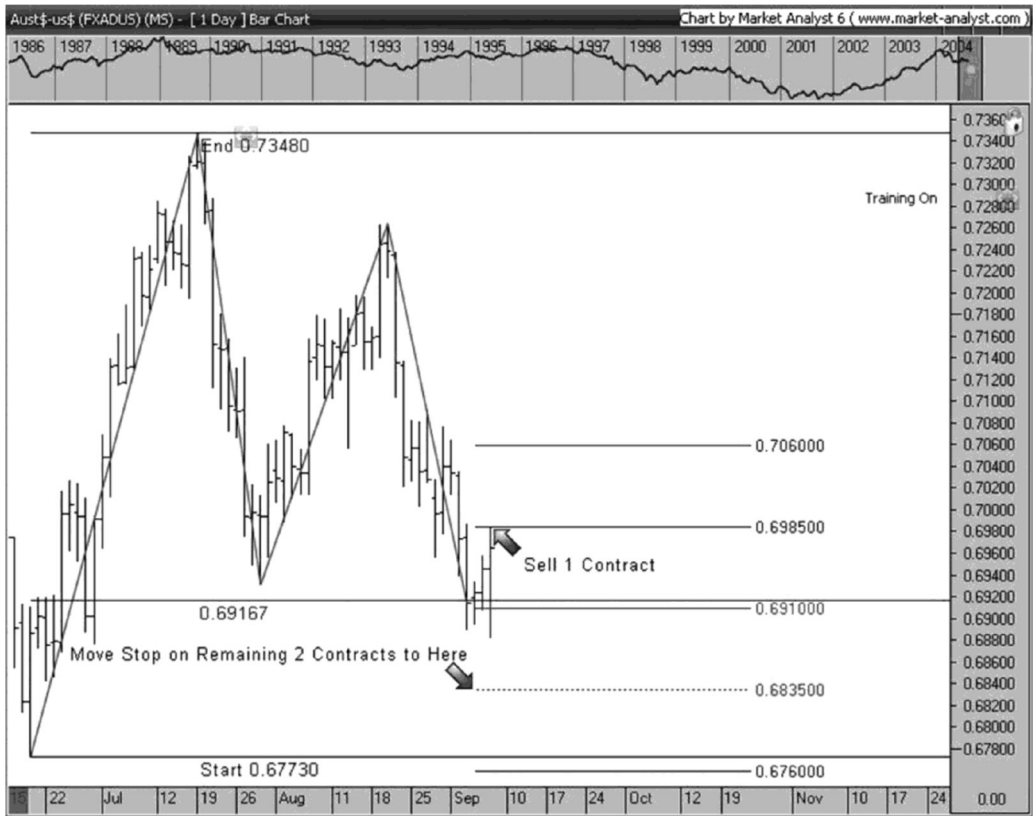

FIGURE 6.12 First Target Hit

(150 x 3), and now it is only 75 points. This huge 83 percent risk reduction after the first target is hit often confuses some of my students, so let's review how this 83 percent reduction of risk took place.

We've determined that the initial risk on all three contracts was 450 (3 x 150). Then we took a profit of 75 points when we hit the first target. Now, what is the risk on the remaining two contracts? By moving the stop up 75 points on the two remaining contracts, our risk on each of the contracts becomes 75 points, or a total of 150 point for the two of them. But the risk is not actually 150 points, because we now have to subtract the 75 point profit that we have already made when we liquidated the contract after hitting the first target. When we subtract the 75 point profit from the 150 point risk that we have with the remaining two contracts, this gives us a risk on our overall position of 75 points if we get stopped out at .6835. A 75-point loss is a lot better than a 450-point loss! As discussed previously, hitting our first profit target is a high-probability event.

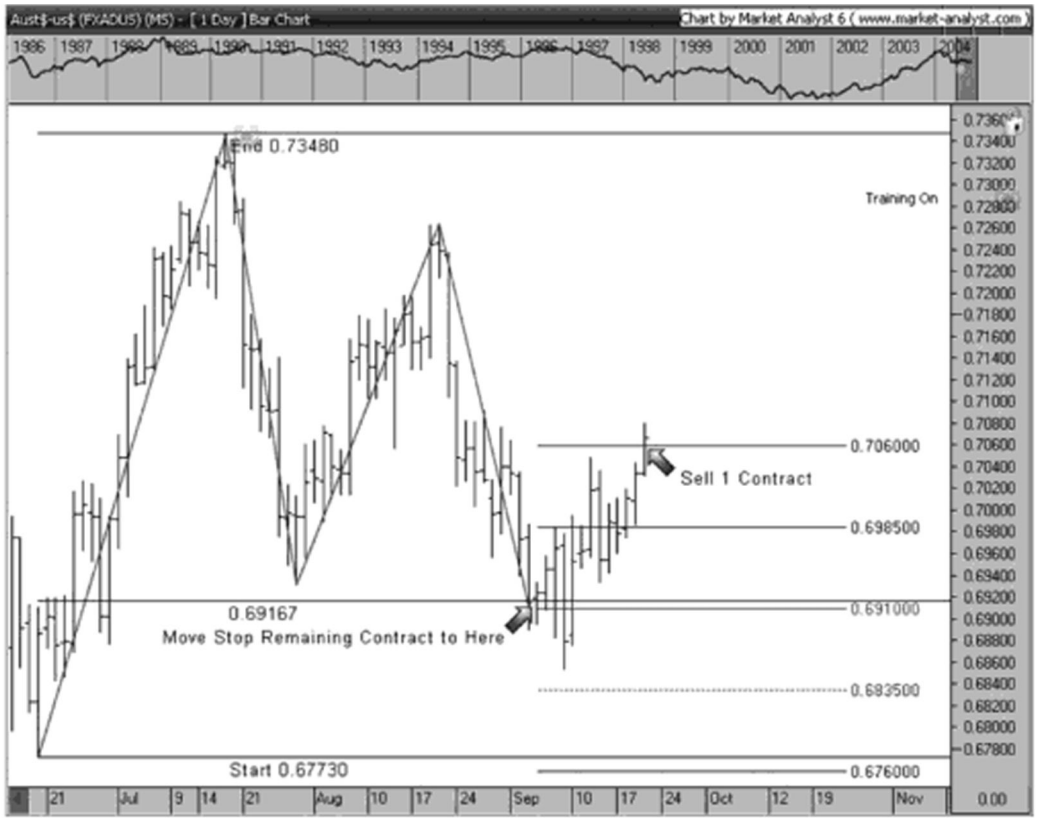

FIGURE 6.13 Second Target Hit

Now that we have hit our "day trader" target at .6985, our focus is on our second profit target at .7060. The second profit target is always 100 percent of our initial risk (150 x 1), or in this case 150 points above our entry price of .6910.

As seen in Figure 6.13, we have hit the second profit target at .7060, and it's time to liquidate our second "swing trader" contract at this level for a 150-point profit. Just as we moved the stop up 75 points when we hit the first profit target, we need to do the same here. Rather than leaving the stop down at .6835, we move it up by 50 percent of our initial risk (150 x .5) or 75 points to .6910, which happens to be the price at which we bought all three contracts. We are now in a very comfortable position. We have locked in a 225-point profit, and our protective stop on the remaining contract is at the same price that we entered. Now we have one contract left, our long-term "position trader" contract. As such, we need to use a big, loose position-trader style of stop on this contract. I refer to this contract as the "lottery ticket" contract, because it doesn't "pay out" as often as the other two contracts do. However, when it does work, you will remind yourself that

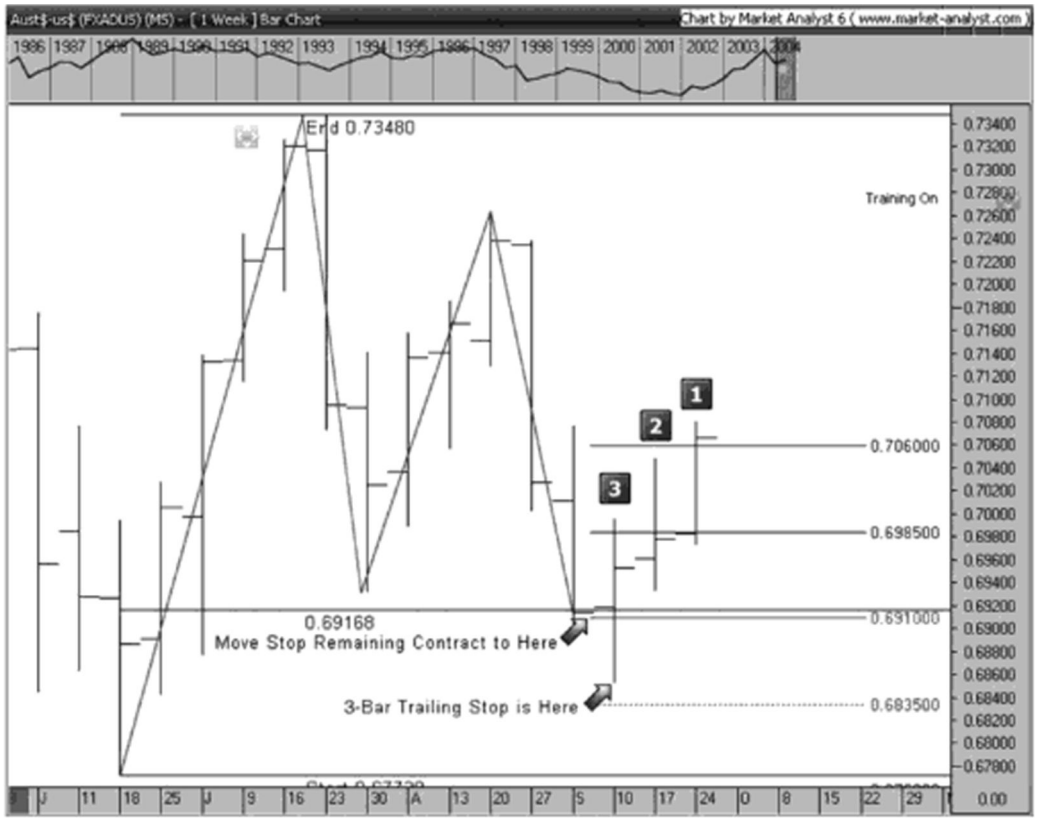

FIGURE 6.14 Changing from Daily to Weekly

the few times in a year that you win the "lottery," it was well worth the time managing your multiple contract positions.

To manage the last position we will use a 3-bar trailing stop, but we are going to use it on the next larger time frame. Our initial trade setup was on the daily chart, so we will use a 3-bar trailing stop on the weekly AUD/USD chart. As shown in Figure 6.14, the Gartley Pattern is still visible, and I have included the profit targets and stop levels for our single in/scale out strategy.

As noted on the chart in Figure 6.14, if we use a 3-bar trailing stop, we have to look back at the last three complete weekly bars on the chart to determine where our stop should be located. The lowest low of the previous three weekly bars is the low of bar number three at .6853. Notice that this low is below our entry price of .6910. That being the case, we will not employ the 3-bar trailing stop on our weekly chart until it exceeds our entry point at .6910. The idea is that we don't want to lose any money on the remaining contract; that means that the 3-bar trailing stop will kick in only when it is above our entry point. Figure 6.15 shows when the 3-bar trailing stop begins to take effect.

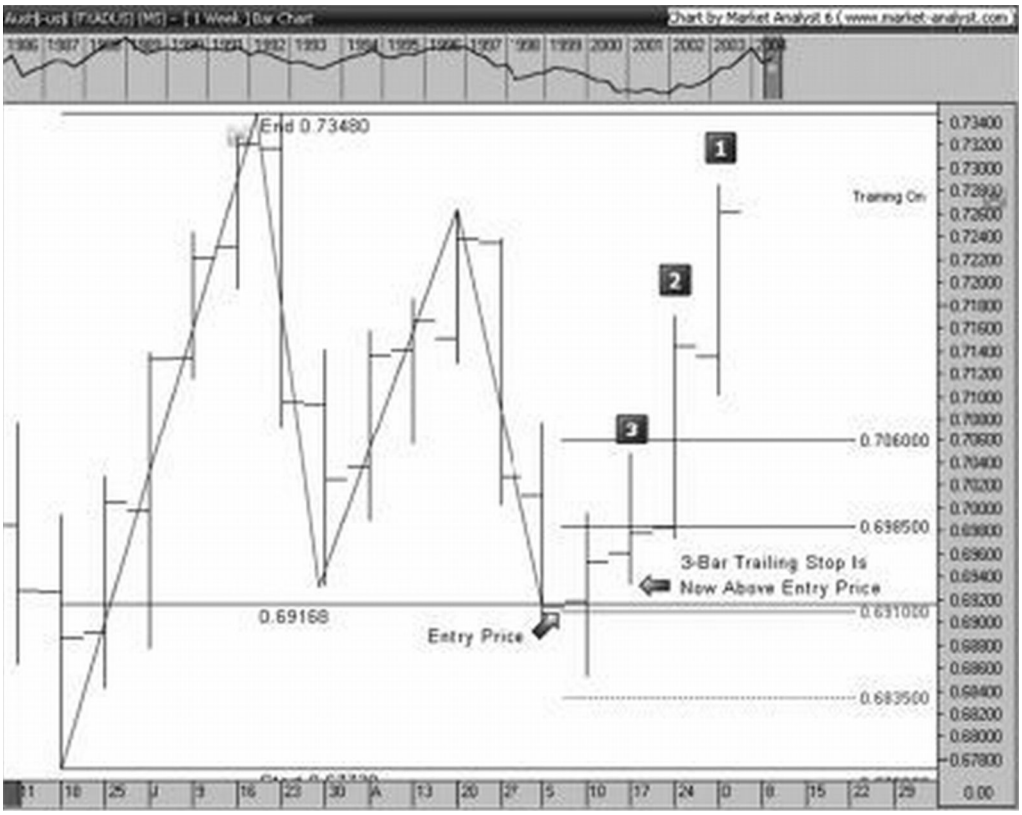

FIGURE 6.15 3-Bar Trailing Stop above Entry Price

In Figure 6.15 we can see that the 3-bar trailing stop on bar number three is now above the entry price of .6910. The 3-bar trailing stop kicks in on the weekly chart, and we now have our "lottery ticket" The result appears in Figure 6.16.

The line shown under the bars in Figure 6.16 is an automatic 3-bar trailing stop available in Market Analyst. The 3-bar trailing stop on the weekly AUD/USD would have kept us in the trade for more than three months until we took off our last position at .7680.

To review, we had an initial risk of 450 points. Hitting the first target paid us 75 points and reduced our risk to 75 points or 83 percent. The second target paid us 150 points, and our stop was moved to entry, thus theoretically eliminating the chance that our profit would turn into a loss. The last position or "lottery ticket" was liquidated for a 770 point profit. The single in/scale out strategy works well in all markets and all time frames. Even if you choose not to trade Gartley Patterns, do yourself a favor and start using the single in/scale out trade management strategy with your existing trade setups; you will be glad you did!

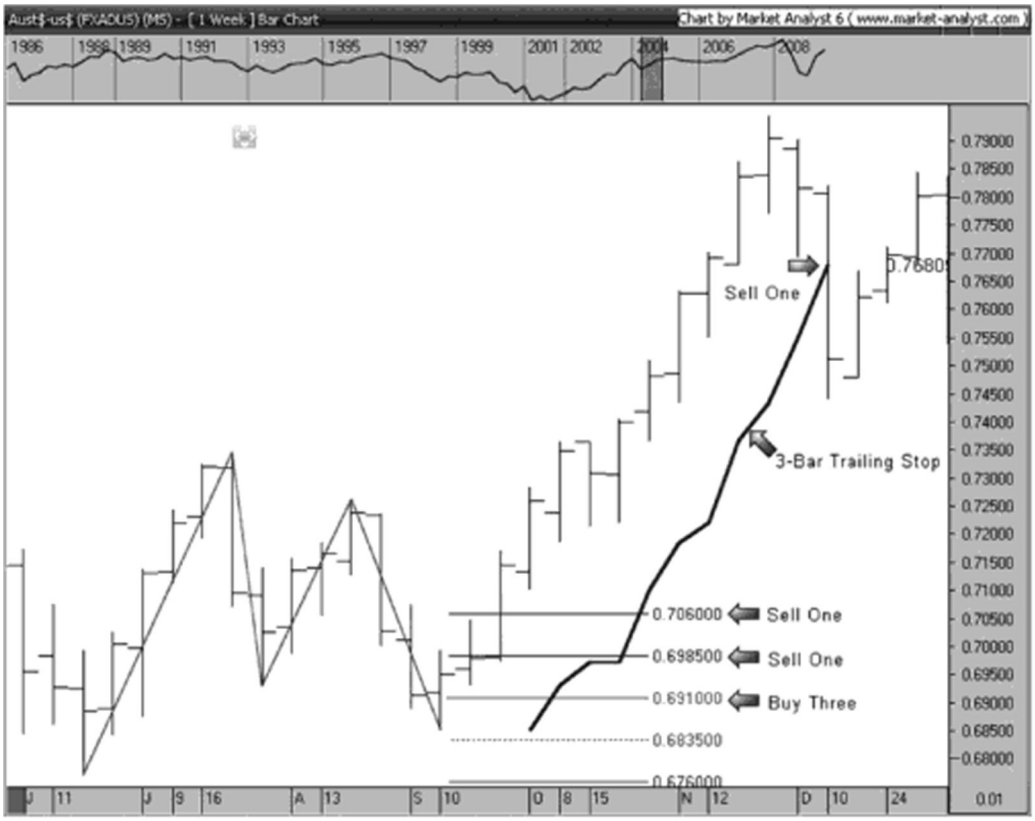

FIGURE 6.16 Result of Single In/Scale Out Strategy

Scale In/Single Out

As mentioned, an alternative method of managing your trade is with a martingale-style money management system. I refer to this strategy as scale in/single out. As stated previously, this method of money management is very aggressive, but it will allow you to "turn a loser into a winner" in the majority of cases.

Gamblers are familiar with the "doubling-down" concept, and it can be applied to trading as well. If you like the idea of being "right" most of the time, this strategy will appeal to you. However, there is a price to be paid for the luxury of being "right" most of the time. When you are wrong, you are really wrong!

To apply a scale in/single out method of trade management, we have to create a "scale," or an interval for our chart. To determine the right scale, we must look over the previous history of the instrument in question to determine the optimal value of the scale. Once this has been determined, we are ready to trade.

For example, let's imagine that you want to trade a bullish TCG786 on the EUR/USD and the EUR/USD is currently at 1.4000. You determine that the optimal scale for the EUR/USD is 100 pips. You enter the trade with a single contract at 1.4000, with a profit target at 1.4100. If the EUR/USD goes up to 1.4100, then you have made 100 points and the TCG786 worked and you would have a 100 point profit. But what happens if the EUR/USD goes down? The idea is that we want to double our position size at each 100-point interval. If the EUR/USD drops to 1.3900, we would buy two more contracts (double our previous quantity purchased) and change our target from 1.4100 to 1.4000. If the EUR/USD rallies to 1.4000, then we would break even on the first contract that we bought at 1.4000, and we would make 200 points on the two contracts that we purchased at 1.3900. If the EUR/USD continued to decline to 1.3800, then we would buy four more contracts (double our previous purchase quantity) and change our profit target from 1.4000 to 1.3900, and so on.

If you haven't heard of this before, don't get too excited about this idea. There are definite disadvantages to using a martingale trade management system. The first issue is that it requires a significant amount of capital. In theory, this money management method is bulletproof except for one small issue—money. Do you have unlimited capital to weather a big drawdown in your account if necessary? The other disadvantage with martingales is the risk of ruin. You *must* have a limit on how many intervals that you will go to; otherwise, it is a matter of time before you switch back to the single in/scale out strategy or before you will quit trading altogether. I always put a stop at the fourth interval. Therefore, when I get stopped, it is at a big loss on seven contracts. The good part about the strategy is that you have a high percent chance of winning. Make sure you have specific rules in place before you initiate a position with this strategy. Don't fool yourself into thinking that your system wont break because of historical stats; stuff happens!

Let's look at an example of a cotton trade signal. The signal was to sell cotton at 57.00. In the chart in Figure 6.17, we have applied the single in/scale out targets. You can see that we would have been filled on three contracts at 57.00, liquidated one position at 54.50, and then stopped out on the remaining two contracts at 59.50 for a loss.

Now let's see what happened when we applied the scale in/single out strategy to the same trade. As seen in Figure 6.18, we would have sold one contract at 57.00 with our profit target at 52.00. Cotton dipped temporarily but then rallied up to our next interval at 62.00. At 62.00, we sold two more contracts so that our next position was short three contracts. The next interval to sell would have been up at 67.00; however, cotton weakened before it went up further. When we were filled at 62.00, we moved our profit target higher from 52.00 up to 57.00 About a week after we added to our position at 62.00, cotton dropped to 57.00 and we would have liquidated our positions for a profit.

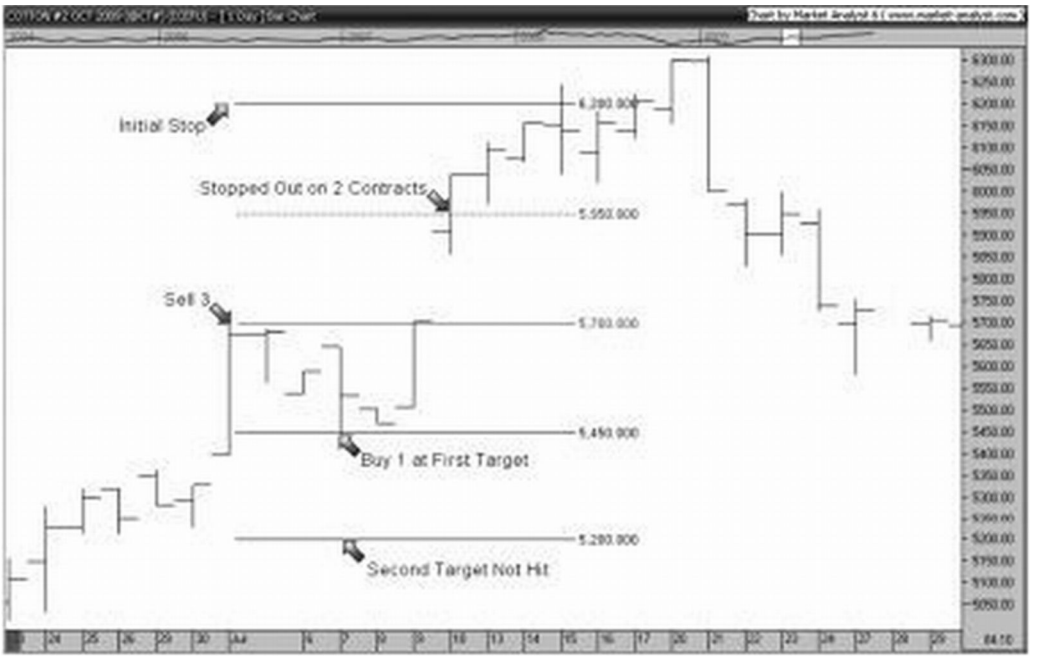

FIGURE 6.17 Single In/Scale Out

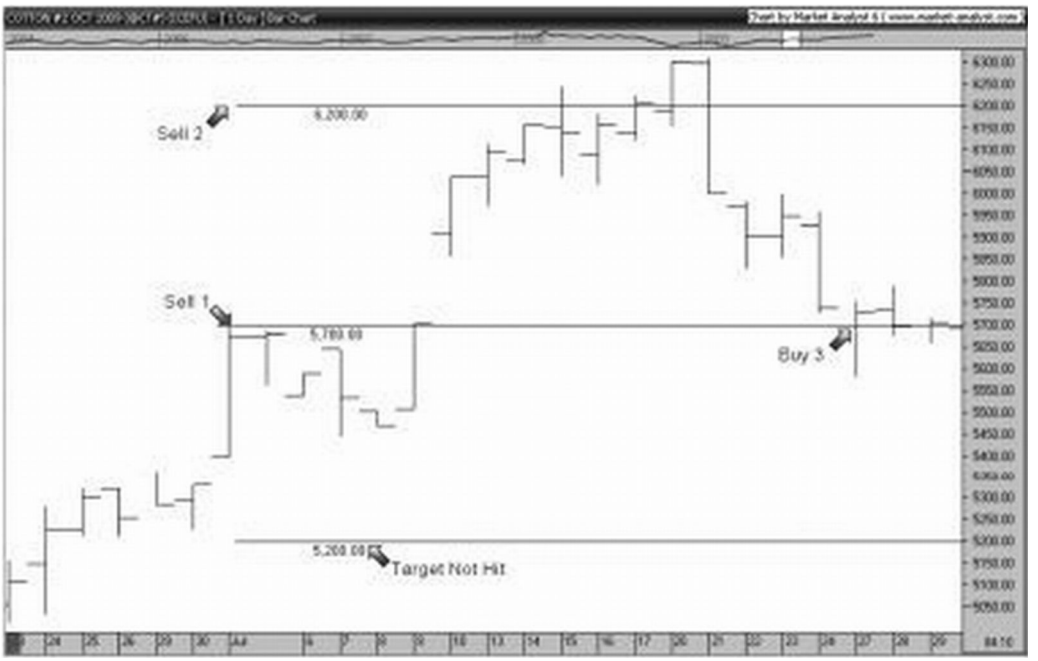

FIGURE 6.18 Scale In/Single Out

As you can see from our cotton examples in Figures 6.17 and 6.18, the single in/scale out strategy ended with a loss, whereas the scale in/single out strategy would have ended with a profit.

In Chapter 6, we have examined the elements of different trade entry and exit signals. In addition, we have explored the option of entering the market with multiple contracts by scaling in or scaling out of a position. In Chapter 7 we examine real-world situations with case studies that apply everything we have learned up to this point.

CHAPTER 7

Case Studies

Now that we Ye covered some of the strategies for entry and exit, let's look at some case studies. The following four case studies will reinforce what you've learned in the previous chapters and show you how to use that information to make a trading decision. These are real trade setups that I published in advance in the *Gartley Trader Futures and Forex Report* in 2009.

CASE STUDY NO. 1

The first case study focuses on a trade signal published in the *Gartley Tender Futures Report* from the week of October 19, 2009. The setup is illustrated in Figure 7.1 and is shown in the 60-minute continuous sugar (ICE) chart. From early September (indicated by the W) sugar continued to rise up to point X on October 1. We have applied a 3 percent swing chart overlay to identify the significant corrections that took place during this rally.

In regard to volume, remember Gartley's statement regarding this phase: "activity has shown a definite tendency to dry up, indication that liquidation is terminating" Notice the volume window displayed under the chart; a trend line has been plotted to indicate the reduction of volume on sugar during this initial W-X phase.

Let's now focus our attention on the X-A leg in Figure 7.1. Notably, the swing plotted from the 3 percent swing chart overlay shows us that the X-A leg is greater in price and time compared with the other bearish swings displayed This indicates that a potential high is in place at point X, and there could be a fundamental change of trend taking place. Elliott wave obsessives will notice a textbook 5-wave sequence during the X-A leg. Is this mandatory? No, but a five-wave subdivision is a very common occurrence

FIGURE 7.1 Volume for W–X and X–A

during the X-A leg. In addition, look at the increase in volume taking place during the X-A leg as indicated by the trendline drawn in the volume window. Gartley stated that he wanted to see "volume expanding on the upside" in regard to the X-A leg.

We have yet to see an AB = CD in the recent rally, but we still have enough data points to plot our price retracement and price extension. Notice the decline in volume in respect to the A-D rally. Remember that this was an important aspect of Gartley's "One of the Best Trading Opportunities."

Now we need to apply a price-extension tool to identify where the D point should be. In Figure 7.2, we have applied the quadrilateral to identify where the potential D point of AB = CD in price and time at the tip of the quadrilateral.

The next tool we will use is the price-retracement tool. As shown in Figure 7.3, the tip of the quadrilateral is landing right beside the 78.6 percent retracement at 24.47. Due to the proximity of the horizontal Fibonacci retracement line and the tip of the quadrilateral, the expectation is that a trend reversal is due.

Now we have to make a decision regarding our entry technique. In this example I use the single in/scale out method of money management. The *Gartley Trader Futures Report* from that week says, "We have a potential bearish Gartley pattern on the 60 minute continuous SB chart. If SB rallies to 24.50 before it trades below 22.51, the bearish Gartley pattern should be complete and we will want to enter with limit orders on the short side."

FIGURE 7.2 Quadrilateral Price Extension

FIGURE 7.3 Quadrilateral Clustering with 78.6 Percent

Why do we use 22.51 as a place where our trade will be invalid? If sugar breaks the low of the C point of the pattern, then the AB = CD would have to be recalculated, because the more recent decline will be more pronounced compared to the existing B-C leg.

The trade management rules are spelled out for us in the report as follows:

Entry order. Sell three contracts at 24.50 with limit orders. Enter the protective buy stop on all three contracts at 25.50. Set the first profit target to buy one contract on a limit at 24.00.

If the first target is hit. Move the protective buy stop on the remaining two contracts to 25.00 and set the second profit target to buy one contract at 23.50.

If second target is hit. Move the stop on the remaining open position to 24.50 and use a 3-bar trailing stop on the daily chart as long as the 3-bar trailing stop is below 24.50.

3-Bar trailing stop. The 3-bar trailing stop in the preceding example would put a stop above the highest high of the previous three bars (ignoring inside bars) on a daily chart.

Now we need to enter limit orders on our trading platform; sell three contracts at 24.50 limit. If we get filled on the order, we will need to put our stops above the X point at 25.50. Let's add some more bars to the chart to see whether we get filled.

In Figure 7.4 we can see that sugar hit 24.50 and did not trade below 22.51 so as to invalidate the trade. Now we sell three contracts at 24.50. Next, we have to set our profit targets. Using the single in/scale out levels tool in Market Analyst, we click the level where we sold our three contracts at 24.50 and click the 25.50 level where our stops are. The software automatically calculates our targets and stops according to the single in/scale out method, as shown in Figure 7.5.

Now that we are filled, we have to enter an order for a protective stop; buy three contracts on a stop at 25.50. This level is identified for us in Figure 7.6.

In addition to the stop, we need to enter another order for our first profit target; buy one contract on a limit at 24.00. The worst-case scenario now is that sugar might rally up to 25.50 and stop us out on all three contracts. However, this rarely happens; we know that the first profit target is twice as close to our entry price than where our stop is. Therefore, hitting the first profit target is a much more probable event than getting stopped out. Let's see if this is the case in our situation.

As shown in the chart in Figure 7.7, we hit the first profit target at 24.00, and we buy back one sugar contract on a limit and we move our stop to 25.00. Therefore, we cancel the order to buy two contracts at 25.50 on a stop, and we enter a new order to buy two contracts at 25.00 on a stop. At this point it is possible for us still to lose money on this trade; however, even if we get stopped out now on the two remaining contracts at 25.00, we have reduced our risk by 83 percent.

FIGURE 7.4 Filled with the 78.6 Percent Fib Entry Method

FIGURE 7.5 Profit and Stop Levels Set

FIGURE 7.6 Stop and First Target Entered

FIGURE 7.7 First Target Hit

FIGURE 7.8 Second Target Hit

We are now hoping that sugar will drop and hit our next profit target, so we enter a new order to buy one contract at 23.50 on a limit. Let's see what happens.

As shown in Figure 7.8, our order was filled and we buy back our second contract at 23.50. We are still short one contract, so we have to cancel the open order to buy two contracts on a stop at 25.00 and enter a new order to buy one contract on a stop at 24.50. Our stop on the remaining contract is at our entry point, so even if we get stopped out at 24.50, the trade will still be profitable. Some people call this last contract a "free trade," or "using the house's money"; I just call it the "lottery ticket" contract-

As discussed previously, at this point we want to change time frames. Why? From experience, if you stay on the same time frame, the single in/scale out method still works fine; however, the hist contract doesn't seem to participate in the big position trader moves unless the time frame is changed. Remember, we looked at the difference between a 3-bar trailing stop on a daily and a weekly chart in Figures 6.9 and 6.10. The difference in profits can be substantial when the time frame is changed. We were advised in the *Gartley Trader Futures Report* to use a 3-bar trailing stop on the daily chart. We will now change the chart from 60 minutes to daily, as shown in Figure 7.9.

In Figure 7.9, the single in/scale out levels that we added to the 60-minute chart are still visible. Notice the daily bar that hit our second target at 23.50? This is the day when our 3-bar trailing stop kicks in. The automatic 3-bar trailing stop in Market Analyst is

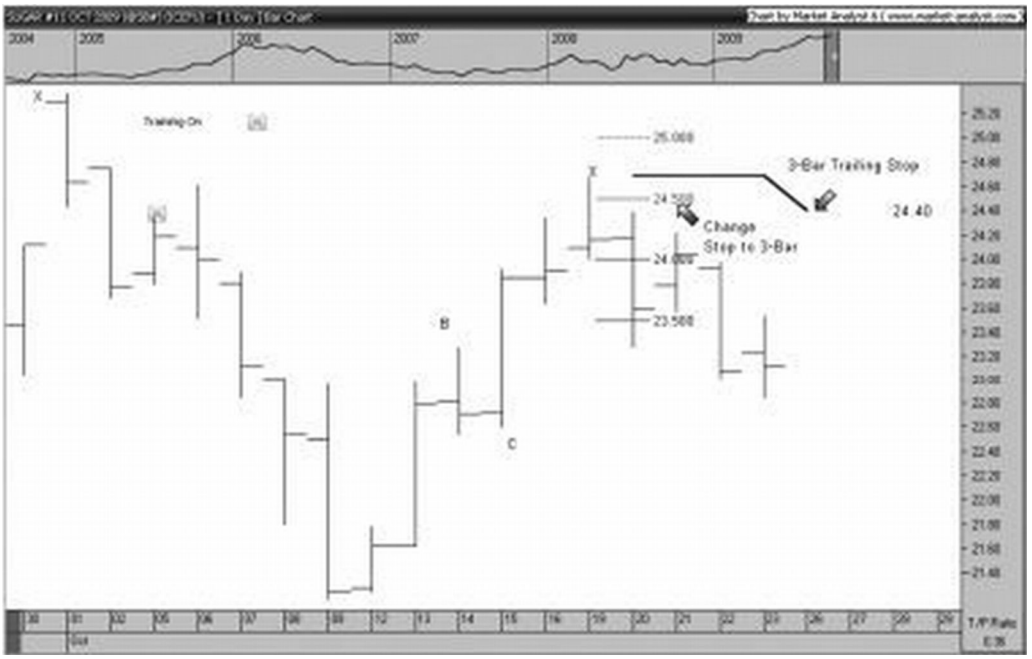

FIGURE 7.9 Daily Chart with 3-Bar Trailing Stop

displayed for us, but notice that the stop line is above the entry price at 24.50. Where should our stop be? Remember, as discussed previously, when we get to the last open contract of the three that we put on, we do not want to lose anything on the last contract. For that reason, the minimum place for our stop would be at 24.50 and no higher. It is not until the 3-bar trailing stop line dips below the 24.50 level that the 3-bar trailing stop kicks in. In Figure 7.9, this event occurs at the last bar on the right, where the 3-bar trailing stop is now set to 24.40. Now that the 3-bar trailing stop has kicked in, we will have to occasionally adjust our stop. As we will be calculating the 3-bar trailing stop on the daily chart, we will have to look at our at chart once a day at the end of the trading session to see whether we need to replace our existing stop order with a different prioe.

Let's add some more bars to our sugar trade to see the final result

In Figure 7.10, we were finally stopped out on the daily chart with our 3-bar trailing stop at 22.91. The results of our bearish TRG786 example for sugar from the *Gartley Trader Futures Report* are as follows:

- Sold one contract at 24.50, bought one at 24.00.
- Sold one contract at 24.50, bought one at 23.50.
- Sold one contract at 24.50, bought one at 22.91.
- Profit = 3.09 x $1,120 = $3,460.8).

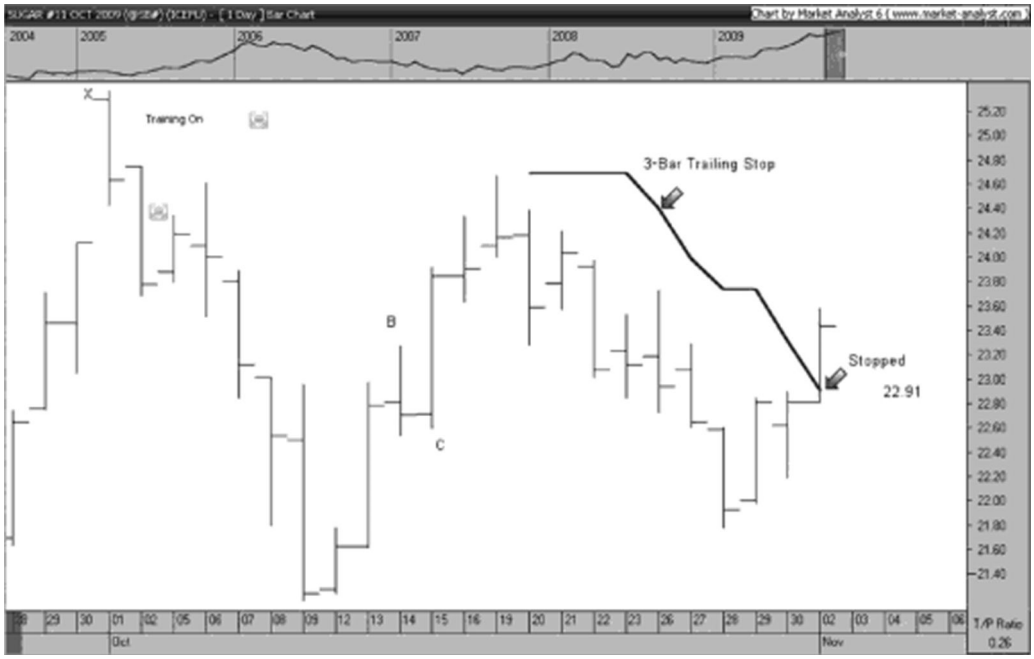

FIGURE 7.10 Stopped Out with 3-Bar Trailing Stop

Overall, this was a nice example of a TRG786 trade using the single in/scale out method of money management. Let's consider another example, but this time it will be a TCG. Remember, with trend continuation Gartleys, we won't be looking at volume.

CASE STUDY NO. 2

The next example is a trade signal published in the *Gartley Trader Futures Report* for the week of December 7, 2009. The setup, illustrated in Figure 7.11, is the 360-minute continuous crude oil (NYMEX) chart.

From late September to late October, crude continued to rise. This would be the X-A leg of our trend-continuation Gartley, given that the price action before the September low looks corrective in nature; therefore, we are not looking for a trend reversal but for a trend continuation. Once again this X-A leg looks like a 5-wave Elliott Wave sequence, but it doesn't matter; we are simply looking for something that resembles a trend.

Following the X-A trend move, can you discern an ABC Elliott Wave correction or an AB = CD? We have applied the quadrilateral as our price-extension tool to identify where the end of this correction should terminate.

FIGURE 7.11 Potential Bullish TCG786 In Crude

The next tool we will need to use is the price-retracement tool. As you can see in Figure 7.11, the tip of the quadrilateral is landing closer to the 78.6 percent Fibonacci retracement than to the 61.8 percent Fibonacci retracement. Therefore, we expect to see the completion of a TCG786 shortly.

Once again, we will use the single in/scale out method of money management. The *Gartley Trader Futures Report* said,

> We have a potential bullish Gartley pattern on the 300 minute continuous CL chart If CL declines to 70 before it trades above 78.90, the bullish Gartley pattern should be complete and we will want to enter with limit orders on the long side. Depending on your account size you may choose to use mini contacts or an at the money option at the entry price. If the option doubles in price, liquidate.

The 78.90 level is identified as the point where the trade would be invalid, and on page 5 of the report we find trade management rules for the single in/scale out strategy, which are listed as follows:

- **Entry order.** Buy three contracts at 70.00 with limit orders. Enter the protective sell stop on all three contracts at 65.00. Set the first profit target to sell one contract on a limit at 72.50.

- **If the first target is hit.** Move the protective sell stop on the remaining two contracts to 67.50 and set the second profit target to sell one contract at 75.00.
- **If the second target is hit.** Move the stop on the remaining open position to 70.00 and use a 3-bar trailing stop on the daily chart as long as the 3-bar trailing stop is above 70.00.
- **3-Bar trailing stop.** The 3-bar trailing stop in the preceding example would put a stop below the lowest low of the previous three bars (ignoring inside bars) on a daily chart.

Using Market Analyst's single in/scale out tool, we click the entry price ($70.00) and the stop price ($65.00) to display the levels for us automatically, as shown in Figure 7.12.

Now we need to enter limit orders; buy three contracts at 70.00 limit. If we get filled on the order, we will put our stops on all three contracts below the late September low (X point) at 65.00. Let's add some more bars to the chart to see whether we get filled.

In Figure 7.13 we can see that crude hit 70.00 and did not trade above 78.90 so as to invalidate the trade. Now that we have bought three contracts at 70.00, we have to set our stops; sell three contracts on a stop at 65.00. This level is identified for us in

FIGURE 7.12 Profit Targets and Stops Set

FIGURE 7.13 Orders Pilled at $70.00

Figure 7.13. In addition to the stop, we need to enter another order for our first profit target; sell one contract limit at 72.50. Let's see what happens next.

As shown in Figure 7.14. we have hit our first profit target at 72.50, and we sell one contract on a limit. We now have to replace our order to sell three contracts on a stop at 66.00 with one to sell two contracts on a stop at 67.50. Once again we have reduced our risk by 83 percent. We also have to place an order for our second target at 75.00; sell one contract at 75.00 limit. We are now hoping that crude will rally and hit our next profit target. Let's see what happens.

As shown in Figure 7.15, our order was filled, and we sold a second contract at 75.00. We are still long one contract, and so we need to cancel the open order to sell two contracts on a stop at 67.50 We now put a protective stop in on the last contract at our entry price; sell one contract on a stop at 70.00. At this point, even if we get stopped out, we would still be profitable.

Do you remember what we have to do next? We were advised in the *Gartley Trader Futures Report* to use a 3-bar trailing stop on the daily chart. So we now have to change from a 360-minute chart to a daily chart As long as the automatic 3-bar trailing stop line is above the 70.00, we will use it. Lets add the automatic 3-bar trailing stop on the daily chart to see the final result.

FIGURE 7.14 First Target Hit

FIGURE 7.15 Second Target Hit

FIGURE 7.16 Stopped Out with a 3-Bar Trailing Stop

In Figure 7.16, we were finally stopped out on the daily chart with our 3-bar trailing stop at 80.83. The results of our bearish TRG78G example for sugar from the *Gartley Trader Futures Report* were as follows:

- Bought one contract at 70.00, sold one at 72.50.
- Bought one contract at 70.00, sold one at 75.00.
- Bought one contract at 70.00. sold one at 80.83.
- Profit = $18.33 x $1,000 = $18,330.

This is a nice example of a TCG786 trade using the single in/scale out method with crude oil futures. You might be thinking that you would never trade three regular-size crude contracts with a five-dollar stop. The *Gartley Trader Futures Report* is for beginners and professionals. I have a subscriber on the floor of the NYMEX who uses the signals on regular sized contracts because he has the available capital to trade this way. If you don't have the capital, that's OK; just don't take the trade or look for smaller contracts. For an example, we discussed the regular CL 1,000-barrcl crude contract. You could also trade other products such as the miNY crude contract, which is 500 barrels. Or you could trade oil stocks, an ETF, a narrow-based index, an option, and so forth. The *Gartley Trader Futures Report* gives signals; it's up to you how you wish to execute those signals if you don't have enough capital in your account.

Another concern someone might have about the trade is that the risk-to-reward ratio ended up getting close to 1:1. Is 1:1 really a concern? Consider this: If you were betting on heads or tails and you knew that the coin you were flipping was weighted toward the tails side, would you be interested in making a bet? In addition, if you decided to bet even money, how many flips would you like to commit to? One? One hundred? One thousand? Hopefully you get the point.

The Gartley isn't perfect, and so to keep things in perspective, let's look at a trade where we had a loss.

CASE STUDY NO. 3

The next TCG example is a signal published in the *Gartley Trader Forex Report* for the week of June 22,2009. The chart in Figure 7.17 is the daily chart of the EUR/USD (SPOT). Can you see a Gartley Pattern?

It appears that there may be a bearish TCG pattern in the EUR/USD. To make sure, we have to apply the price-retracement and quadrilateral tools to the chart. From December 2008 to March 2009, there appeared to be an impulsive trend move to the downside. This would be the X-A leg of our trend continuation. Following the X-A trend move, there was an ABC Elliott Wave correction or an AB = CD. We have applied the

FIGURE 7.17 Daily EUR/USD

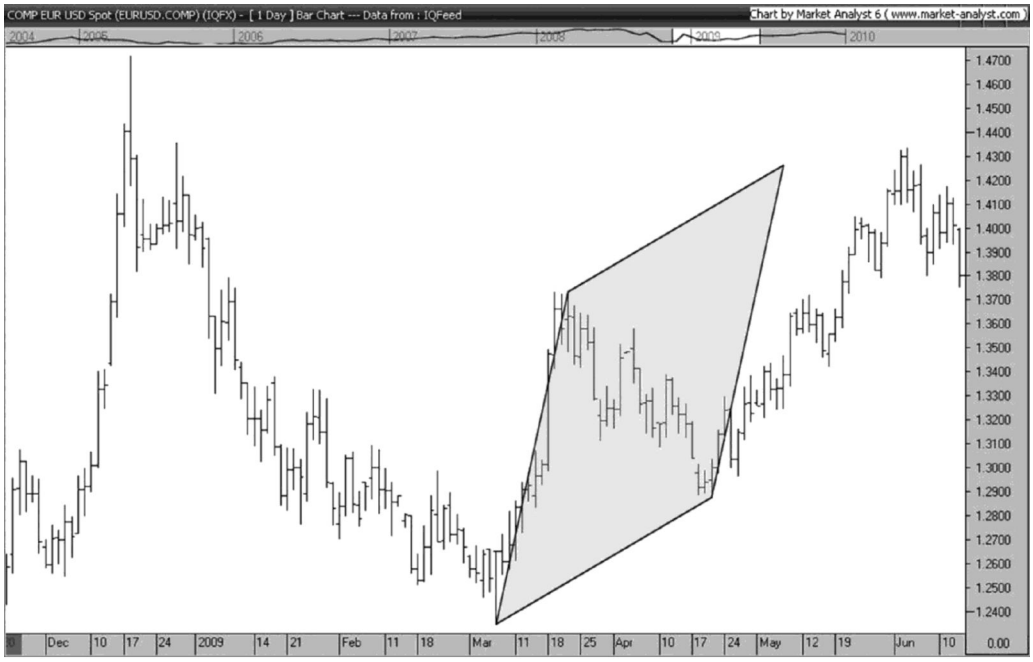

FIGURE 7.18 Quadrilateral Applied

quadrilateral as our price extension tool to identify the time and price target where the countertrend should terminate. This is illustrated for us in Figure 7.18.

After applying the quadrilateral tool to the corrective portion of our chart, we now calculate a 78.6 percent Fibonacci retracement on the X-A leg. This retracement level is 1.4214 and is displayed in the chart in Figure 7.19.

As we can see, the tip of the quadrilateral is just beyond the 78.6 percent Fibonacci retracement. Due to the proximity of these two tools, we have confirmed that we have the completion of a TCG786 pattern. However, the issue with this setup is that it has already happened. The *Gartley Trader Forex Report* comes out once a week on Monday, and on June 22, 2009 the EUR/USD had already weakened a bit. So what should we do?

It will happen from time to time that you will spot a Gartley that has already completed. When this happens, simply ask, "Does the pattern still appear valid? Has the market had a significant reversal in the area of my cluster?" If the pattern still appears to be valid and the market hasn't experienced a significant change of sentiment, then simply put limit orders in to get filled in the area that the pattern completed. This typically is the Fibonacci level where the pattern completes; however, it could be at another level. The reason that we cannot be dogmatic about this is because sometimes there can be another "mini-Gartley" on a shorter time frame from the one we are trading off of, and we may choose to use that setup rather than the previous one.

FIGURE 7.19 78.6 Percent Fibonacci Retracement Applied

In this example, the *Gartley Trader Forex Report* states, "We have a bearish Gartley setting up in the EUR/USD on the daily chart. The pattern is based on a 78.6 percent Fibonacci retracement and a simple ABC zigzag that completes at 1.4165. If the EUR/USD rallies this week to 1.4215 before it goes below 1.3749, the bearish Gartley pattern will be complete and we will want to enter with limit orders on the short side."

The orders are spelled out for us in the newsletter as follows:

- **Entry order.** Sell three contracts at 1.4215 with limit orders. Enter the protective buy stop on all three contracts at 1.4355. Set the first profit target to buy one contract on a limit at 1.4145.
- **If the first target is hit.** Move the protective buy stop on the remaining two contracts to 1.4285 and set the second profit target to buy one contract at 1.4065.
- **If the second target is hit.** Move the stop on the remaining open position to 1.4215 and use a 3-bar trailing stop on the weekly chart as long as the 3-bar trailing stop is below 1.4215.
- **3-Bar trailing stop.** The 3-bar trailing stop in the preceding example would put a stop above the highest high of the previous three bars (ignoring inside bars) on a weekly chart.

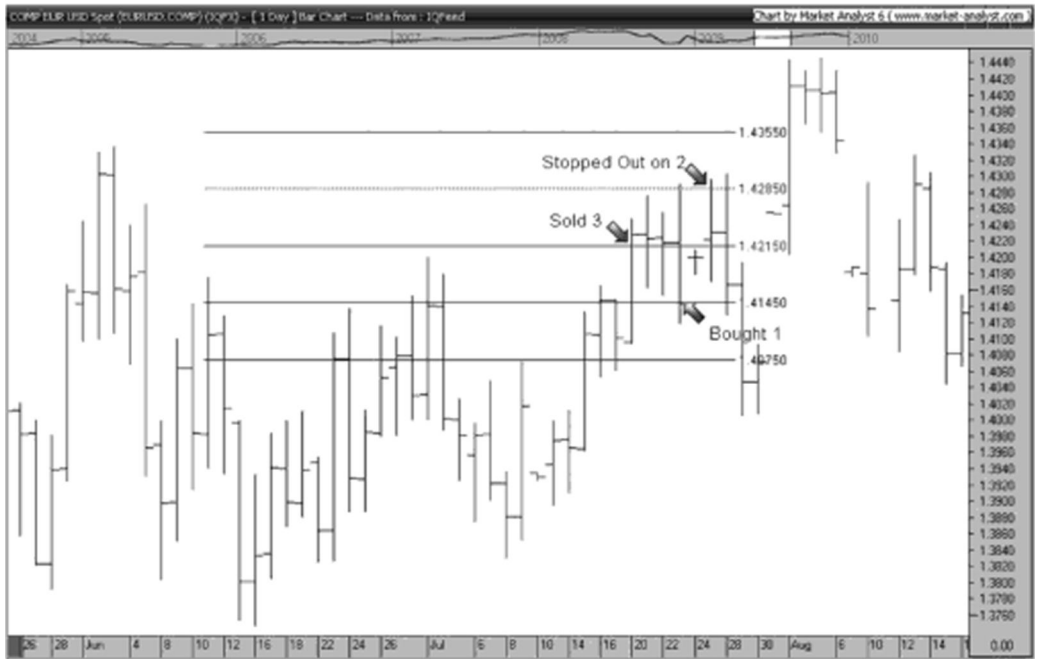

FIGURE 7.20 Stopped Out

The result of this trade is shown in Figure 7.20.

In Figure 7.20. we can see where we were filled on our initial order of selling three contracts at 1.4215. Three days later we hit our first profit target at 1.4145. At that point we would have canceled our stops on three contracts at 1.4355 and put in a new stop order on two contracts at 1.4285. Two days later, the EUR/USD rallied, and we were stopped out at 1.4285. The results of our bearish TRG786 example for the EUR/USD from the *Gartley Trader* newsletter were as follows:

- Sold one contract at 1.4215, bought one at 1.4145.
- Sold one contract at 1.4215, bought one at 1.4285.
- Sold one contract at 1.4215, bought one at 1.4285.
- Loss = 70 Points x $10.00 = ($700).

The potential risk on this trade was initially 120 points for a potential $4,200 loss. However, we got away with a $700 loss. In my opinion, getting into a position to trade a big Gartley off a daily chart and losing only §700 is a "win."

Once again, if the foregoing numbers make you nervous, don't trade the big contracts. Many spot Forex dealers offer mini contracts and micro-mini contracts in Forex.

Let's look at one more example.

CASE STUDY NO. 4

Our last example is a bullish TRG786 pattern. This signal was published in the *Gartley Trader Futures Report* for the week of March 9, 2009. The setup is illustrated in Figure 7.21 and is the daily continuous wheat (CBOT) chart. From the high in March 2008 (indicated by the W), wheat declined down to the low made at point X in December 2008.

Remember with the TRG patterns, we are looking for Gartley's volume rules for the W-X leg. Gartley stated that "activity has shown a definite tendency to dry up, indication that liquidation is terminating." Notice the volume window displayed under the chart; a trendline has been plotted to indicate the reduction of volume on wheat during this initial W-X phase.

Now let's now focus our attention on the X-A leg in Figure 7.21. It appears that the X-A leg could be indicating a reversal in trend. The X-A leg is greater in price and time compared to previous swings in the same direction since the summer. This indicates that a potential low could be in place at point X. In addition, look at the increase in volume taking place during the X-A leg, as indicated by the trendline drawn in the volume window. Gartley stated that he wanted to see "volume expanding on the upside" in regard to the X-A leg.

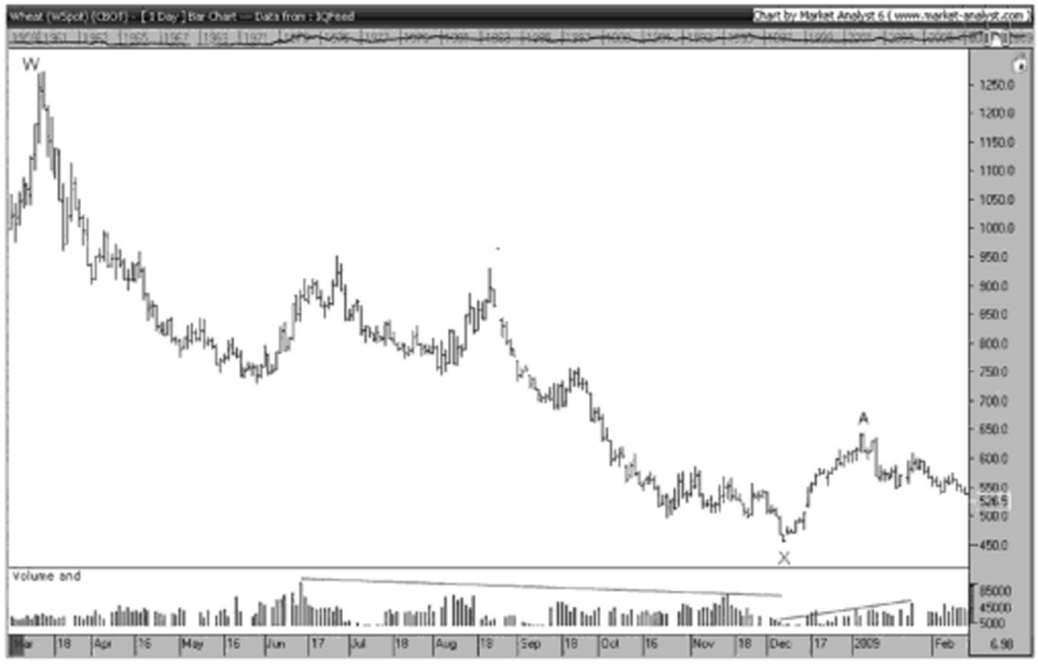

FIGURE 7.21 W-X Volume Decline, X-A Volume Increase

FIGURE 7.22 Decrease In Volume on A-D

Now let's zoom in to see rest of the pattern. As we can see in Figure 7.22, we have supplied the chart with the XABC labels Notice the decline in volume in respect to the A-D decline as indicated by the trendline in the volume window. Remember that this was an important aspect of Gartley's rule on volume.

Now we need to apply a price-extension tool to identify where the D point should be. In Figure 7.23 we have applied the quadrilateral to identify the D point of AB = CD in price and time.

The next tool we will need to use is the price-retracement tooL As is apparent in Figure 7.24, the quadrilateral is landing right beside the 78.6 percent retracement. This means that there is a higher probability that there will be a trend reversal at the 78.6 percent level instead of at the other Fibonacci levels, resulting from the proximity of the quadrilateral tip to the 78.6 percent level.

In Figure 7.24, the tip of the quadrilateral is just above the 78.6 percent Fibonacci retracement at 496.9. We have now confirmed that we have the completion of a bullish TRG786 pattern in wheat. What method of money management will we use? Mr favorite is the single in/scale out method. Let's use the single in/scale out levels in Market Analyst. Our levels are automatically displayed on the chart with two clicks, one click at the entry level and one click at the initial stop level, as shown in Figure 7.25.

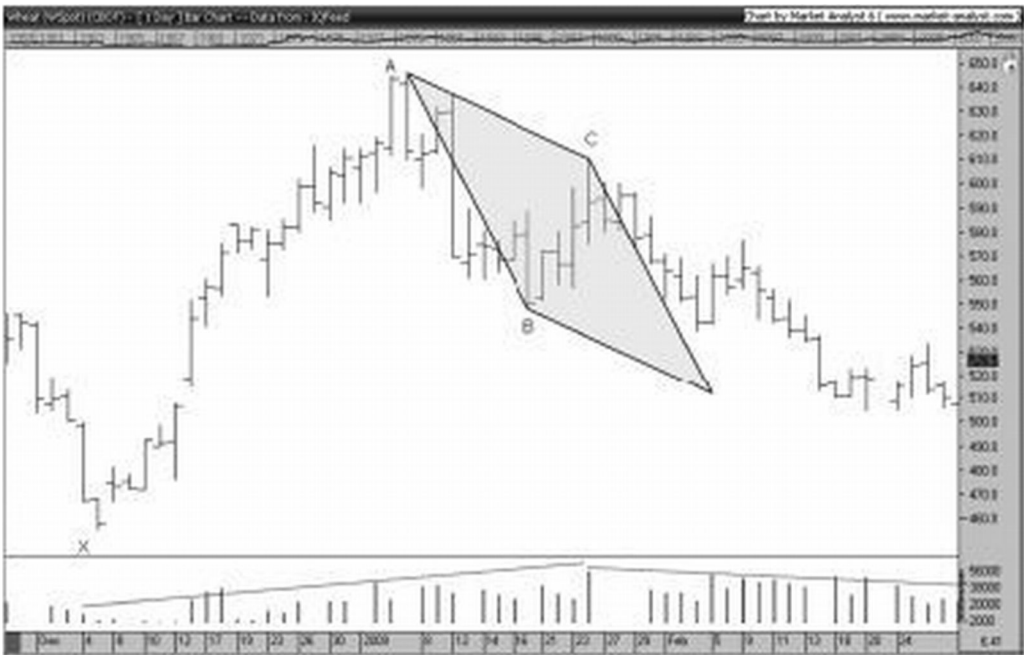

FIGURE 7.23 Quadrilatéral Applied

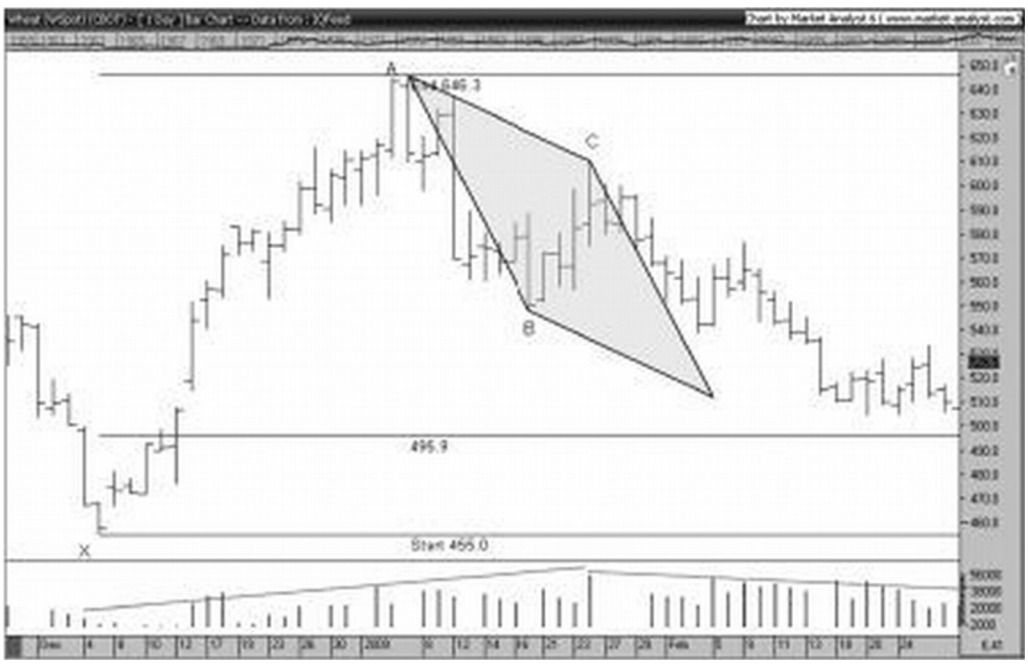

FIGURE 7.24 78.6 Percent Retracement

FIGURE 7.25 Profit and Stop Levels

So now it's time to place our orders on the broker platform. According to the *Gartley Trader Futures Report*, the orders are as follows:

- **Entry order.** Buy three contracts at 496 with limit orders. Enter the protective sell stop on all three contracts at 451. Set the first profit target to sell one contract on a limit at 518.5.
- **If the first target is hit.** Move the protective sell stop on the remaining two contracts to 473.5 and set the second profit target to sell one contract at 541.
- **If the second target is hit.** Move the stop on the remaining open position to 496 and use a 3-bar trailing stop on the weekly chart as long as the 3-bar trailing stop is above 496.
- **3-Bar trailing stop.** The 3-bar trailing stop in the preceding example would put a stop below the highest high of the previous three bars (ignoring inside bars) on a weekly chart.

Let's add some bars to see if we get filled on our order to buy three contracts at 496.

In Figure 7.26 we can see that wheat dropped to 496. Now we have bought three contracts at 496 and placed a protective stop on all three contracts at 451. We have included

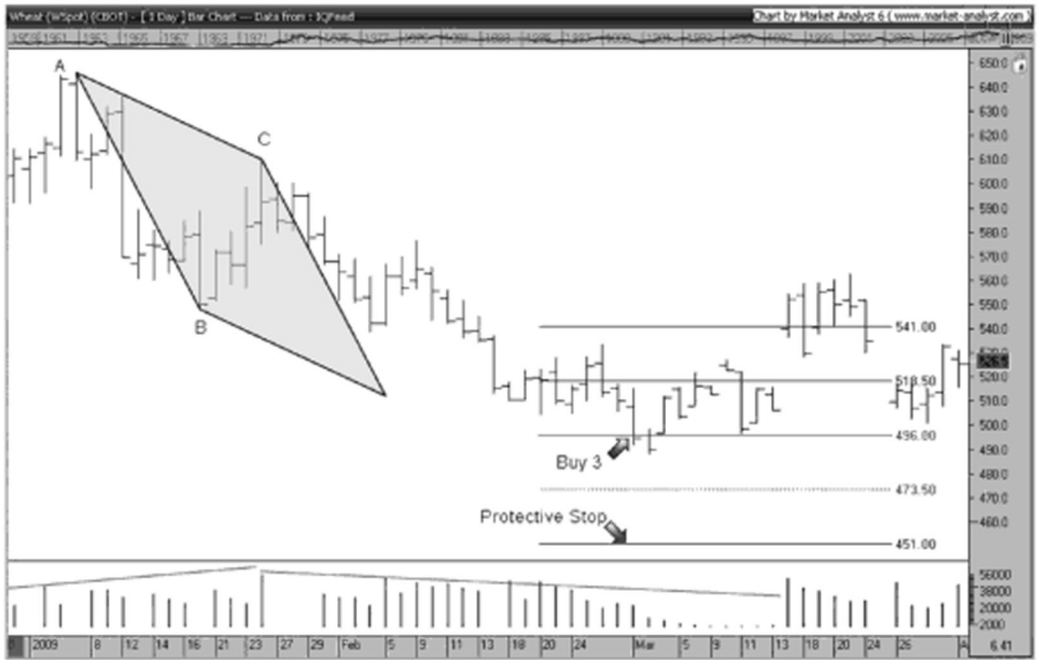

FIGURE 7.26 Buy Three Contracts, Enter Stops

some future bars on the chart to give you a different perspective and so that you can compare Figure 7.26 with Figures 7.27 and 7.28.

In Figure 7.27, we hit our first target at 518.5 and moved our stop up to 173.5.

In Figure 7.28, we hit our second target at 541 and moved our stop up to 496. Remember what we need to do now? Switch time frames for the "lottery ticket" trade. We are changing our view from the daily to the weekly chart of wheat. Then we apply the 3-bar trailing stop on the weekly as long as the stop remains above 496.

As shown in Figure 7.29, we changed our time frame to weekly and applied the 3-bar trailing stop. The 3-bar trailing stop took us out of our last contract at 576. Remember, managing a 3-bar trailing stop on a weekly chart means that you only have to look at your chart once a week to see whether the stop needs to be adjusted. The results of our bullish TRG786 example for CBOT wheat are as follows:

- Bought one contract at 496, sold one at 518.5.
- Bought one contract at 496, sold one at 541.
- Bought one contract at 496, sold one at 576.
- Profit = 147.5 points x $10.00 = $7,375.

FIGURE 7.27 First Target Hit, Move Stop

FIGURE 7.28 Second Target Hit, Move Stop

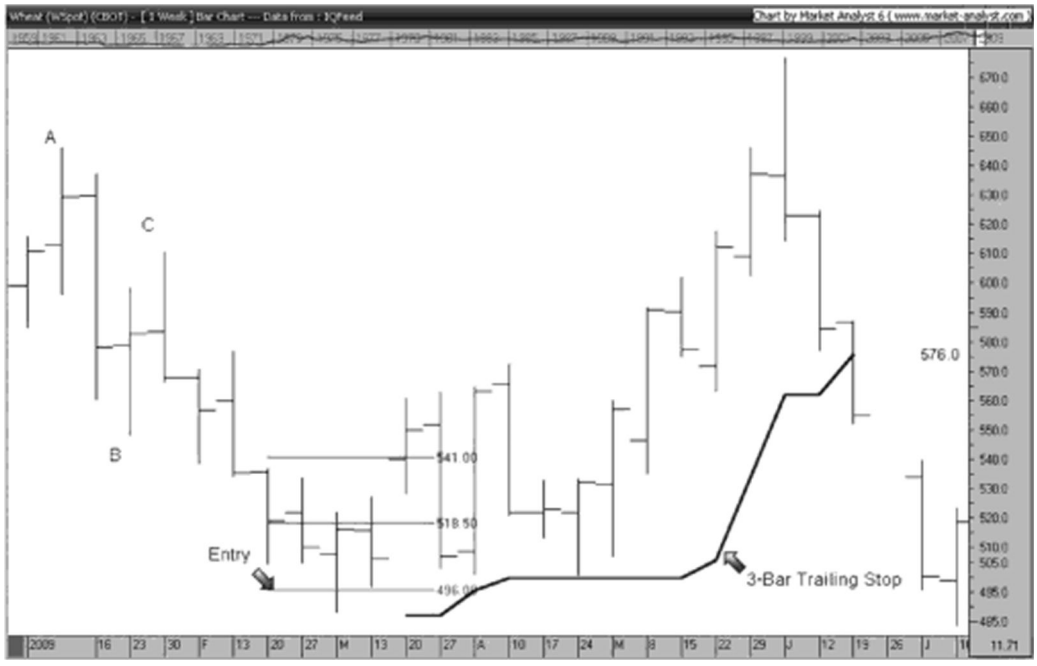

FIGURE 7.29 3-Bar Trailing Stop on Weekly Chart

In Chapter 7, we have considered four real-world examples of how to trade TRGs and TCGs using the single in/scale out trade management strategy. You now know enough to be dangerous. But before you run out and put on some trades with your newfound knowledge, it is essential that you read Chapter 8 to learn how to develop your personal trading plan and a trading journal.

CHAPTER 8

Plans and Journals

My friend Robert Miner wrote a book entitled *Dynamic Trading.* The idea behind the word "dynamic" is an important concept in understanding how to achieve trading nirvana. The word "dynamic" comes from Greek and can be translated simply as "related to power." A further definition of dynamic is "of or relating to energy or to objects in motion; characterized by continuous change, activity, or progress" Given this definition, we would all agree that the financial markets are dynamic in the sense that the energy or power of individuals is responsible for the market's continuous change. Therefore, there is *one* thing that we know with certainty about the financial markets—they constantly change. They are not based on static, perfect* fixed-length cycles that continue to repeat forever. This is an important concept, because it has a bearing on what we should do with our positions if the market starts to mow against us.

As we have discussed, the Gartley Pattern setup is only one part of the trading puzzle. Once a position has been taken and new information becomes available, you might need to make a new decision based on new information instead of sticking with the old decision based on old information. Guys might stereotype girls and complain about how girls keep changing their minds. Or are the girls simply trying to make better decisions by considering the most current information? The ancient Persian kings had a rule that once the king established a law, it couldn't be changed, not even by the king himself! Guys, are we like that? Our egos get in the way, don't they? Start listening to the GPS when you get lost in the car. You might even consider something incredibly difficult if you are a married man—listening to your wife!

Let's imagine that you wanted to take your family on a picnic. You have one week to plan the food, drinks, activities, and all the other details to make sure that it's the best picnic ever. The day before the picnic, the weather forecast states that there is a

98 percent chance of precipitation. Based on the time you spent planning for the picnic, would you still insist that everyone in your family attend, because there is a 2 percent chance that it, *won't* rain? Would you conclude that, you are a bad father because you didn't take your family on a picnic; that you aren't a "man" because you are changing your mind?

This illustration may seem ridiculous, but do you see the parallels with trading? Despite all the mental energy that we put into our analyses, sometimes we will be wrong. New information is being made available to you every second. Does the new information confirm what you believed, or does it tell you that you might be wrong? Holding on to a position that appears to have a 98 percent chance of losing is about as smart as the father's forcing his family to go to a picnic in the rain. The family will respect the father for his flexibility in not forcing them to go to a picnic in the rain; similarly, traders are rewarded for flexibility when it comes to acting on new information.

DEVELOPING A TRADING PLAN

So as you are about to consider developing your trading plan, how can you be dynamic or flexible and yet have a solid trading plan that you can adhere to?

The easy part of writing your trading plan is establishing rules for the setup. The difficult part is how you will manage the trade once you've entered the market. Within the plan, you should identify various market conditions that could take place *after* you initiate a trade. At least five types of scenario can take place after you put on a position:

1. Strongly bullish.
2. Moderately bullish.
3. Neutral.
4. Moderately bearish.
5. Strongly bearish.

Your trading plan must be flexible enough to accommodate, at a minimum, these five variables. It is impossible to list all future financial events in a trading plan, but we should have these five situations listed at minimum.

You will notice in the trading plan sample found in the following section that I do not list five different exit strategies based on the foregoing five scenarios. The reason for this is that the trading plan uses the single in/scale out method of trade management, which was discussed previously. In my opinion, the single in/scale out method covers the listed five scenarios. It allows us to have rules in place, but it also allows us to make

adjustments to our trading practice based on new, future information. The list of possible scenarios is for the individual who wishes to use a technique other than the single in/scale out method, while allowing for flexibility within the framework of his or her trading plan.

Remember that most "new" information is being digested by the markets very quickly to reflect it. Therefore, the only "new" information that we should focus on is the price action on the charts, not a "talking head" on TV discussing things that have already happened.

One of the five listed categories is more important than the rest. Do you know which one? It is category number one if you are short (and category number live if you are long). Having a stop in place when you are dead wrong is the most important stop of all. Some have decided at some point in their trading careers (including myself) not to put in a stop and to say "we'll see how it goes." Should we allow for this type of "dynamic trading?"

A construction worker may conclude that he doesn't need to wear a hard hat because he has never been hit in the head—in fact, he's never seen anyone hit in the head on a construction site. As we all know, if he doesn't wear the hard hat, it takes only one mistake and his construction career will be over. It's similar with trading. We must be prepared for the worst possible scenarios, even if they have never happened before. We place orders in the market to protect ourselves from a potential trading catastrophe in the same way that a construction worker wears a hard hat. I don't think there are many construction workers who enjoy wearing a hard hat; it's about as gratifying as putting stop loss orders in the market. However, protective stops and hard hats save careers and lives.

With this in mind, it's important to define exactly where the stops should be and to have crystal clear rules as to how you are going to adjust them before you place a trade. These rules must be written down in a trading plan.

After getting this far in the book, you might be excited to get out there and find some TRG786s. But isn't it true that you've found out about other exciting trade setups in the past? Why aren't you still excited about them? The typical response is. They didn't work." From a professional trader's point of view, this answer is not acceptable. "Why didn't they work?" is a better question. How many times didn't they work? How many times did they work? What were the rules? Did you change the rules? Did you have enough money?

If it is your intention just to give it a shot with the Gartley Pattern, please don't take that approach. I would appreciate it if you abstain from forming an opinion about the method if you don't have enough results to form an opinion. If you treat trading the Gartley as a "hobby," it will pay you like a hobby. On the other hand, if you are excited and serious about this, then before you put a trade on, you *must* create a written trading plan.

One of the first and most crucial points that should be in a trader's trading plan or business plan is how much to risk on any one trade. If you don't define your risk on a

trade, you are potentially risking everything in your account. Defining our personal risk tolerance is Trading 101. Will you risk 5 percent of your existing capital on any one trade? Or 3 percent? Or 1 percent? There is no incorrect answer to this question except, "I dont know how much money I am risking on this trade." To define your personal risk tolerance on any single trade, try the following exercise. Imagine that you have saved up $10,000 over a few years to trade with. Now imagine that you execute a trade according to the instructions in your trading plan and you lose $600. You now have $9,500 in your trading account. How do you feel? Do you feel that the $600 was too much money to lose on the trade? What number would make you feel better? $300? $100? There is no correct answer to this question. Whatever number you choose is the percentage you should risk on any one trade.

I find that most people don't have the discipline to write out a trading plan. Why is it that people will get anal about writing out a business plan if they are going to open a small business with start-up capital of $10,000 or $20,000, but these same people will open a trading account with $50,000 and never get around to writing a trading plan? Do professional traders document their method of trading in a written trading plan? Do professional traders compile the results of all their trades? Of course they do, and if you want to be a professional trader, I would suggest that you start these habits sooner rather than later.

SAMPLE TRADING PLAN

What follows is a model of a trading plan that can be used as a template. Feel free to modify it according to your own needs. I know some will still refuse to write out a trading plan, despite my reminding them that if they "fail to plan, plan to fail." If this applies to you, then simply photocopy this page and use the following rules; that would be better than not using any rules. However, unless you have a personality that is almost identical to mine, chances are you won't be able to stick to this trading plan. Why? Because every person is unique, and every person needs his or her own trading plan. Remember, one of the hardest things about trading is knowing yourself.

Trading Plan

The following is a sample trading plan for beginning traders to adopt and modify as they see fit

- Trades initiated will be trend reversal Gartley (TRG) Patterns that conform to the rules as set out in *The Gartley Trading Method.*

- Time frames for analysis will be the daily, 360-minute. and 15-minute charts.
- International equities, futures, and Forex markets will be scanned with the Market Analyst scanning feature set to find TRG786 patterns.
- Wolfe Wave lines will be drawn to confirm all TRG786 patterns.
- Trades will be executed with OptionsXpress directly off the chart with the OX plugin for Market Analyst.
- Risk on any one trade will not exceed 1 percent of trading capital available.
- In the event that my capital experiences a 50 percent drawdown, all positions will be liquidated, and no further trading will take place.
- New positions will always be in increments of three contracts, based on the single in/scale out rules of trade management as specified in the *Gartley Trading Method.* In the event that the risk of the three contracts exceeds the 1 percent rule, I will modify the size of the contract or not take the trade.
- The 3-bar trailing stop exit will always be used on the last third of the single in/scale out strategy.
- Stops will be in place at all times. I will enable audible alerts on Market Analyst to inform me of necessary order adjustments.
- After the setup criteria for the TRG786 is complete, entry will be based on the 1-bar reversal method.
- A chart of the instrument traded will be printed and kept in my trading journal. These charts will be kept for every entry and exit. In the event that there is a trade that creates a loss, I will fearlessly examine the trade to determine whether there was any way I can learn from it and improve this trading plan.
- I will not modify this plan with open positions on.
- Money used for trading will be risk capital.

A potential roadblock to sticking to a trading plan is the desire to change the plan and the rules in the middle of a trade. This is very typical of gamblers. To illustrate, imagine a gambler who visits Las Vegas with his wife for a weekend. He vows up and down that he will not lose more than $500 gambling over the weekend. You could call this his "trading plan." He starts playing blackjack, and by 9:00 P.M. Friday evening, he is down $1,000. What is he thinking now? "I have to win back at least $500 or my wife will kill me!" Typically, in this environment, the gambler will change his "system" and increase his risk, trying to get back to the $500 "stop loss" that he promised to his wife.

This "let's win it back" attitude often prevails in trading as well. When the trader deviates from his trading plan with open positions on, he is throwing caution to the wind, and it almost always results in tears. To avoid these pitfalls, it is imperative to write down our rules in our trading plan.

KEEPING A TRADING JOURNAL

After you complete your trading plan, you will need to start compiling a trading journal. The trading journal will give you a place to quantify your results and to determine whether your trading method is "working" or not.. Once again, there may he resistance on the behalf of the general public to keep these results, especially if they are not good results. But remember, "Winners have simply formed the habit of doing things losers don't like to do." So be a "winner" and start compiling your results today; don't wait to do it when you are overwhelmed with the results of 50 trades.

I like easy, and the easiest way to keep a trading journal is to get a quality 3-hole punch, a 3-ring binder, a mechanical pencil, and a box of computer paper. If you have an inkjet printer, sell it and get a laser printer with a spare drum. At a minimum, simply print your charts every time an order is filled, then 3-hole punch the chart and put it in the binder. Use the mechanical pencil to make notations right, on the chart. Make comments about the trade. Ask yourself who, what, when, where, and why, and write anything else that you think might help you. This could include what you ate, how much sleep you had, social issues, or that you missed yoga. Get some of those fancy colored tabs for your binder and sort each section by month. If you are a geek, use Excel and include hotlinks to -jpegs of your charts.

Next, 3-hole punch your trade confirmations and keep them beside your charts. When you receive your monthly statements, keep these together in a separate section of the binder. You will need these to calculate your monthly and annual rates of return. Also include your trading plan at the front of your trading journal binder; this will force you to remember your rules.

After a certain length of time, perhaps every quarter, every six months, or every year, plot a graph of your monthly returns after commissions and fees based on your monthly statements. Now calculate your annual rate of return. Compare your returns with benchmarks such as the S&P 500 Index or the Barclay's CTA Index. This exercise is crucial to trading longevity, because a reflection on your past results will remind you of the reliability of your trading method. Reflecting on past trading success can help you to keep going in the future after facing a temporary drawdown.

CONCLUSION

So, you made it! Congratulations, and I hope you enjoyed reading this book. I know some of you are still not willing to do what it takes, because it does require a lot of work. That is okay, I understand. Maybe you've spent a lot of time on some other endeavor and it didn't work out, and now you are "once bitten, twice shy." Therefore, I have personally

created a software tool that you can use if you don't want to internalize all the information contained herein. This will rebuild your confidence; remember that some people actually make money trading. To learn more about the tools that I've made available for traders interested in trading Gartley patterns, go to www.geometrictrading.com.

Thanks for purchasing *The Gartley Trading Method.* My hope is that you will have found at least one helpful piece of advice that will make a difference in your trading. If the value of the book has exceeded the price that you paid for it, then please do me a favor; go to amazon.com and write a positive review for me. I hope to meet you one day (in this life, or the next), and I wish you future success in your trading endeavors.

APPENDIX A

Who Needs Elliott Wave?

In our noble quest for the "holy grail," many of us have tested every technical indicator under the sun. We quickly realize that there is limited value in the back-testing of multiple redundant indicators. Frustrated, we start to question the very existence of the grail itself. Then we hear the call of the siren—Elliott Wave. When we first hear of it. it seems to make perfect sense. The scales fall from our eyes as we begin to see patterns everywhere, because we have now received what R.N. Elliott referred to in his final book as *The Secret of the Universe.* It now appears that a trader can become the omniscient god of the markets with the ability to pinpoint every market turn.

To further support our newfound belief, we search the Internet to find that we are not alone. We find out that many others believe in Elliott Wave theory. But to truty reach the higher ranks of the "religion," we must purchase the automatic Elliott Wave software. At this point, if we were to complete a self-diagnosis, we would realize that we now have acquired Elliott Wave obsessive-compulsive disorder (EWOCD). Viewing it as a trading asset, we begin to trade with a slight doubt in our mind. If other traders have obtained the grail, why are they so quick to tell still others about it? Is it not our duty as the keepers of the "Secret of the Universe' to control this information?" After losing a significant amount of money trading Elliott Wave, we quickly realize that we are closer to being trading mortals than trading gods.

After reading *The Gartley Trading Method*, you may conclude that the Gartley Pattern replaces the Elliott Wave. The intent of this book is not to undermine the exhaustive technical work already accomplished by R.N. Elliott or Robert Prechter. I am truly grateful to have learned that the market does have a tendency to conform to Elliott Waves; however, we have to remember to be objective in our Elliott Wave analysis. It is not called Elliott Wave fact but Elliott Wave *theory.*

As scientists take sides in the argument between intelligent design and evolution, either belief is seen as an article of faith. Similarly, we must acknowledge that Elliott Wave theory is an article of faith as well. As mentioned, my intent is not to convince you to change your "religion" but rather to have an open mind and to bo objective. It's funny how many trading gurus can achieve cult-like status with followers who refuse to ask questions. Blindly heeding the spiritual call of an Elliott Wave cult leader to sell in a bull market is about as smart as listening to Jim Jones in 1978. However, if I can't convince you to change your "religion" after reading this book, you should be happy to know that your Elliott Wave trades can be improved if you look for simple ABC corrections in the counter-trend move (more on this will follow). The Gartley Pattern can be used as a filter to help you achieve an Elliott Wave trade setup with even higher probability of success.

TRADE WAVE 1, 3, OR 5

It is important to note that if we simply look for TCGs or TRGs with an AB = CD, we will be identifying the end of Elliott Wave corrective phases, which will allow us to trade the impulse. In the three examples that follow, notice that Gartley Patterns allow us alternatively to trade Wave 1, 3, or 5.

Figure A.1 highlights a buy at the end of Wave 2 to trade Wave 3. A 7S.6 percent retracement of Wave 1 can often resemble a double top or double bottom. Adding volume to the criteria of this setup would qualify this as a bullish TRG. Many Elliottieians will tell you that it is only at the end of Wave 1 that you should consider taking a trade. In other words, don't try to trade Wave 3 because you won't know that it's a Wave 3 until *after* it is complete. This is frustrating for Elliott traders who fantasize about trading Wave 3, because they know that it is typically the biggest wave.

Figure A.2 highlights a buy at the end of Wave 1 to trade Wave 5. This setup deviates from the original Gartley material in the sense that the picture on page 222 of *Profits in the Stock Market* displays an impulsive phase prior to the beginning of the

FIGURE A.1 End of Wave 2 and a Gartley

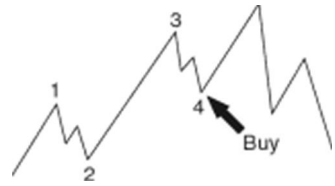

FIGURE A.2 End of Wave 4 and a Gartley

pattern. Therefore, this trade is a bullish TCG. The depth of the retracement level is often dependent on the strength of the trend. This setup is very common in the Elliott Wave world.

If you are going to continue using automated Elliott Wave software trade setups to trade Wave 5, do yourself a favor and add this one filter. Wait for Wave A to complete a simple ABC zigzag correction where Wave A and Wave C are approximately equal to each other. Using this filter requires patience, but it will keep you out of a lot of bad trades. A classic mistake with this trade is to enter with a tight stop and get stopped out; then the market immediately goes in the direction that you thought it would. These early Elliott traders often rely on a minimum 38.2 percent Fibonacci retracement of Wave 3 and a pullback to the zero line of the Elliott Oscillator (typically a 3.35 moving average crossover histogram) to enter a trade at what would appear to be the end of Wave 4. In reality, it is often only the completion of a Wave A of an ABC correction. These traders who get stopped out prematurely suffer from entry dysfunction (ED). The blue pill to remedy this ailment is to wait for Wave 1 to complete a simple ABC zigzag correction before entering.

Finally, have a look at Figure A.3. Waves 1 through 5 constitute the impulsive phase of a larger Gartley pattern followed by a larger ABC correction. As this example completes one cycle, we now enter our trade at the beginning of Wave 1.

FIGURE A.3 End of Wave C and a Gartley

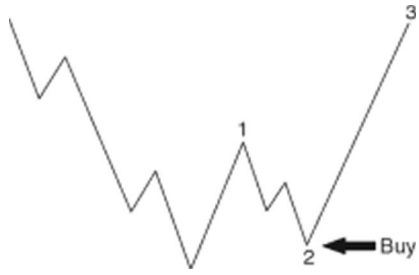

FIGURE A.4 Trading Wave 3

WAVE 3 OR C?

Have you ever executed a trade based on automatic Elliott Wave software wave counts only to have the software re-label the chart with an alternative wave count? How frustrating is that? Wouldn't it be nice if the chart would be re-labeled with an alternative Elliott Wave count and you could still make money? Do you like the idea of making money even when your wave count is wrong?

Have a look at Figure A.4. Ideally, this would be our dream trade—buy at the end of Wave 2 and trade Wave 3. Not only would we be trading in the direction of the trend (as signified by Wave 1), we would be trading what is typically the biggest wave, Wave 3.

However, what if we were wrong about this wave count? What if the next leg after we entered the market was a Wave C? That means we would be long and trading against the bearish trend. It also means that the market will eventually take out the previous low and go even lower. Our intent with the Gartley Pattern is not to trade counter trend, but even when we are wrong about our wave count, we can still make money.

How? Have a look at Figure A.5.

If we buy at the point suggested by Gartley at the end of Wave B, where should the market go before it makes a new low? It should go *up* to make a Wave C before it makes a new low. Therefore, Gartley's suggested entry point is a unique market position where

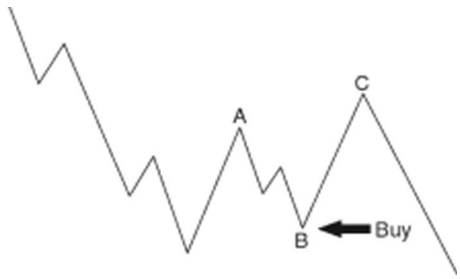

FIGURE A.5 Trading Wave C

the Elliott Wave count becomes irrelevant. It will turn into either a Wave 3 or a Wave C. This is the *ah-ha* moment for a lot of Elliott Wave traders. Once you start trading Gartleys, you really won't care what wave it is—Wave 3, 1, 5,6, 7, or ft.

In view of the foregoing, it becomes apparent that if we simply look for Gartley Patterns, we will be trading Wave 1, 3, or 5. With that in mind we have to ask ourselves, "Who needs Elliott Wave?"

APPENDIX B

"Gann's" Mysterious Emblem

I believe that the following information sheds some light on the meaning of the mysterious emblem on WD. Gann's trading courses. For decades I Ve been under the false impression that the emblem of the connected circle, square, and triangle was a symbol developed by W.D. Gann. I learned the truth recently when I received a call from Cody Jones at Lambert-Gann publishing. After receiving this manuscript for review, Cody wanted me to know the "Gann" emblem was not Gann's invention, but his late father's, Billy Jones. According to Billy's wife Nikki, Billy and Nikki were in San Francisco in the 1970B and Billy noticed the peace sign buttons that were so common then. Using the peace sign symbol for inspiration, he combined the circle, square and triangle shapes into a logo to be used for the Lambert-Gann Publishing Company. I told Cody that maybe we should stop calling it Gann's emblem and give his dad credit and call it the Jones emblem!

If you haven't heard of W.D. Gann, he was one of the most famous stock and commodity traders of all time. For more information on W.D. Gann, check out www.wdgann.com. In the many years of applied technical trading, I have to admit that the methods that have worked most consistently for me are the methods discovered by W.D. Gann. Gann thought outside the box and was willing to be different. Being different and trying something new doesn't sit well with most people; however, to be an exceptional trader, you must keep an open mind. As German philosopher Arthur Schopenhauer stated, "All truth passes through three stages. First, it is ridiculed. Second, it is violently opposed. Third, it is accepted as being self-evident." In other words, when trying new trading techniques, you might want to keep them to yourself; otherwise don't be surprised to find yourself ridiculed. Sadly, those who ridicule you probably continue to lose money hand over fist with the same old tired indicators. What is the definition of insanity again?

I have spoken to many traders about Gann's successes, and opinions vary greatly. Some believe that he simply was a very skillful salesman who sold educational material. There is no doubt that Gann made money selling his courses, but the question is, Did he make money trading? I believe that he did for two reasons. The first is that there is more evidence that he was a successful trader than there is evidence to the contrary. The second reason is that of all the technical methods that I have used over the years, I keep coming back to the methods that Gann taught.

Rumor has it that Gann was a Mason, and because of that, geometry was very important to him, as it should be for all technical students of the financial markets. Why? Look at the shape of this book, the room you are sitting in, furniture, ait, architecture, atoms—everything is geometry. We were created with a preference for symmetry, and we know that humans have a preference for order, proportion, symmetry, and balanced geometric shapes. Looking for geometry in the financial markets allows the technician to paint a picture of the future.

Circle, Square, and Triangle

The emblem found on W.D. Gann's published course materials consisted of the circle, the square, and the triangle, it is illustrated in Figure B.1.

In *The Basis of My forecasting Method*, W.D. Gann stated,

> No matter whether you use geometry, trigonometry, or calculus, you use the simple rules of arithmetic. You do only two things, you increase or decrease. There are two kinds of numbers, odd and even. We add numbers together, which is increasing. We multiply, which is a shorter way to increase. We subtract, which decreases, and we divide, which also decreases. With the use of higher mathematics, we find a quicker and easier way to divide, subtract, add, and multiply, yet very simple when you understand it. Everything in nature is male and female,

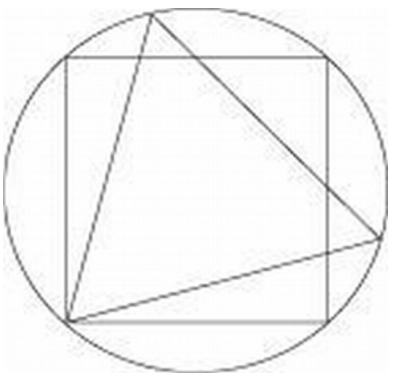

FIGURE B.1 "Gann's" Emblem

> white and black, harmony or in harmony, right and left. The market moves only two ways, up and down. There are three dimensions which we know how to prove—width, length, and height We use three figures in geometry—the circle, the square, and the triangle. We get the square and triangle points of a circle to determine points of time, price, and space resistance. We use the circle of 360 degrees to measure Time and Price. There are three kinds of angles—the vertical, the horizontal, and the diagonal, which we use for measuring time and price movements.

The mysterious "Gann" emblem is most often described by Gann educators as a calendar overlay on Gann's square of 9 calculators. Without delving too deep into the symbolism behind the field of sacred geometry, most students of it would recognize that the circle represents one complete cycle. The triangle of "Gann's" emblem was inside of the circle and this divided the cycle into thirds A square was also within the circle and this represented dividing the cycle into quarters and halves. From these three primary geometric forms are derived the following number sequence, 1, .75, .66, .5, *J33*, *25*. Some Gann traders also use these numbers as support and resistance levels in the same fashion that we have used Fibonacci ratios for retracement levels.

Timing Is Everything

Gann was known for putting great emphasis on the timing element of his trades, as he mentioned in the paragraph quoted. Some of the most important filters that I have discovered that improve the reliability of the Gartley Pattern have to do with time analysis. Time analysis is largely ignored by many in the technical community, yet these same individuals will insist that a trendline is a useful tool. Unwittingly they are using time analysis, inasmuch as any line that is not purely horizontal incorporates the y and x axes. A diagonal line such as a trendline includes *both* price and time.

Until recently, I looked only for Gartley Patterns based on horizontal price lines, such as the price-extension and retracement lines. I was often asked by students if there was any relationship between the slope of the X-A leg and the completion of a Gartley at the D point. My answer was usually based on Larry Pesavento's observation in *Fibonacci Ratios with Pattern Recognition*, where he states that there is a proportional relationship between the X-A leg and the A-D move. I would argue that since the ABDC move is a correction against the trend (X-A), corrections usually happen in a shorter period of time than the trend movement. In other words, my ideal Gartley was one where the number of bars in the A-D move would be less than those in the X-A move. To confirm this, I would use Gann squares to check this timing element as a filter for valid Gartley Patterns.

However, the problem would often arise where there was a perfect Gartley Pattern that would complete beyond the 100 percent time retracement of the X-A leg.

This bothered me for over 10 years, but the scales fell from my eyes when I began digging into some of the material of Michael S. Jenkins. Michael is an expert market geometer and an authority on the techniques of W.D. Gann. After reading Michael's material, it became apparent to me that much of the Gann material being taught was accurate except for one vital piece of information—*offset angles*. Thereafter, I started to combine the market geometry of W.D. Gann and Billy Jones with my Gartley analysis. I discovered that the slope and length of the X-A move had amazing forecasting value.

Offset Angles

Many traders are familiar with the "Gann Fan." The chart is treated like a square, and a line is drawn on the diagonal of the square to divide it in half. Gann referred to this as the 1X1 angle. Additional fractions of these two triangles are derived by adding additional angles, as displayed in Figure B.2.

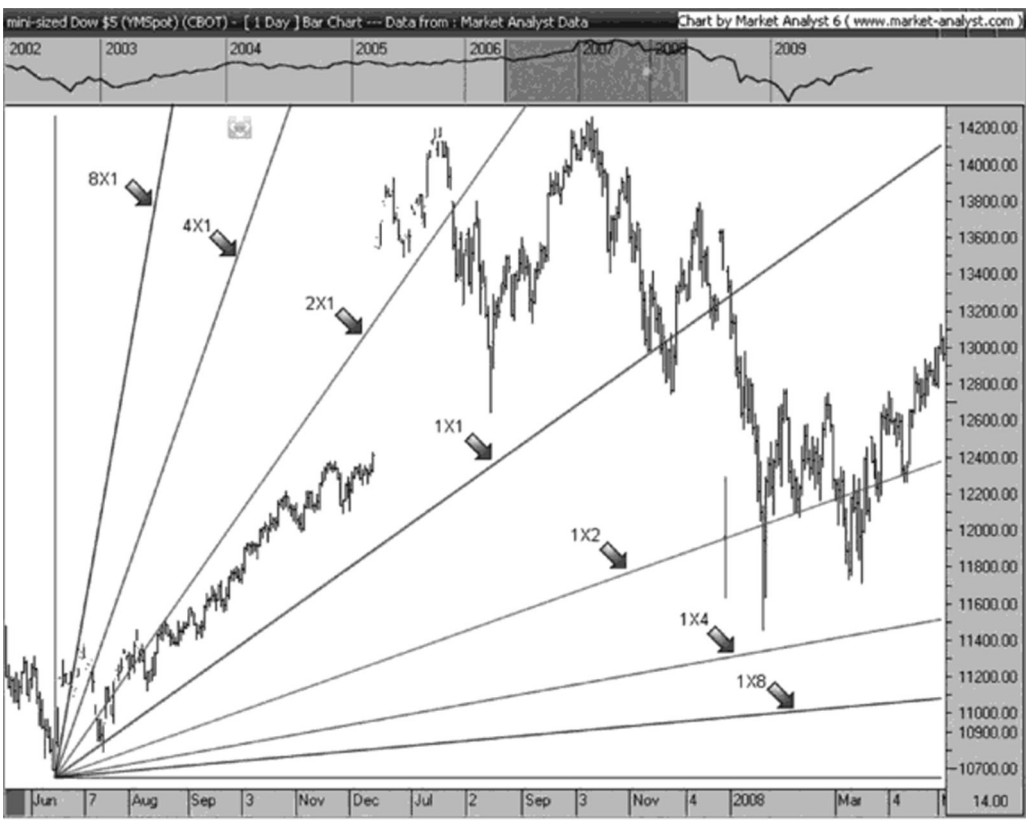

FIGURE B.2 Gann Angles

As many traders are aware, the Gann Fan typically requires an input as to how many units of time are required for each unit of price. Calculating this ratio is the difficult part of using the Gann angles in the traditional manner. This was not an issue when traders used large paper charts. However, now that we trade off of computer screens, it is a simple function to squeeze many bars of data onto a screen with the click of a mouse. Each time we do this, we are altering the ratio between time and price. In exchange for this convenience, most traders disregard Gann price- and time-squaring techniques. However, I believe that the geometry found in the relationship between time and price is still the key to forecasting the financial markets.

When we draw geometric shapes on a screen-based chart and the time and price scaling is not locked, we risk turning our circles into ellipses and our squares into rectangles by squeezing more price data onto the screen. This appears to be one of the major issues of the modern market geometer. Conversely, paper charts have "locked" the price and time ratios. Therefore, there is an advantage to using paper charts for market geometry. If you have access to a drafting table with a large plotter/printer that is capable of printing huge charts, you will have an advantage over the trader with a 14-inch screen who keeps rescaling his chart.

Also, looking for a time and price ratio from data that is 100 years old and using that ratio to predict what is going to happen in the market today doesn't make sense. Why? You shouldn't expect the psychology of dead people to be reflected in today's market action. Current market data reflects the psychology of the current participants The farther we go back in time to calculate a price-and-time ratio, the further away we are from the psychology of the current market participants.

Is there a better way of calculating the correct price-and-time ratio of the current market participants? Yes; simply draw the 1X1 line yourself on the uptrend as shown in Figure B.3; this recent market action gives you a better idea of the most current relationship between price and time.

Notice the difference between the results of the previous two charts in Figures B.2 and B.3. When we draw the 1X1 line ourselves on the second chart, the picture is much clearer. The idea behind the fan lines is that they act as support and resistance lines, just like Fibonacci lines. Notice that after a line from the June 2000 low up to the October 2007 high in Figure B.3 was drawn, the Dow declined and bounced off of the 1X2 line. Once there was a significant break below the 1X2 line, the market found support at the 1X4 line. Angles identify more accurate support and resistance levels when you draw a 1X1 line yourself rather than using a predetermined price-and-time ratio based on historical data that may no longer be valid.

The benefit in using angles for support and resistance instead of the standard horizontal support and resistance lines is that angles reflect support and resistance in price *and* time.

FIGURE B.3 Offset Angles

Beck's Emblem

After trying to figure out how angles, circles, squares, and triangles relate to the Gartley pattern, it dawned on me that "Gann's" emblem fits perfectly right on top of an XABCD Gartley. One way to do this would be to line up the left side of the square with the left side of our chart. However, if we choose this option, we still run into the same problem that we had with the Gann angles in Figure B.2. The angles in Figure B.2 were simply lining up with the side of our chart, regardless of how much data we had on the screen. To avoid the scaling issue, let's line up the left side of the square with a significant high and low, such as the X-A leg in the Gartley Pattern. Notice in Figure B.4 how the arrow is pointing to the side of the square line that we need to line up with the X-A leg.

Once we have drawn the line between the two data points (X-A), we are able to draw the square of "Gann's" emblem. After the square is complete, we can draw the circle and the triangle. Here is where it gets interesting. If we intend to use this offset symbol to

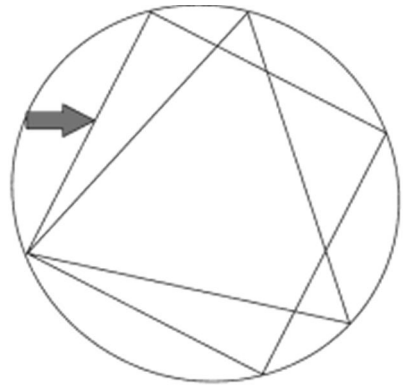

FIGURE B.4 "Gann" Emblem Offset

find additional angles for support and resistance, we will draw another triangle as shown in Figure B.5.

The next step is to draw the final triangle as seen in Figure B.6. This gives us what I call Beck's Emblem.

The implications of the relationship between the Gartley Pattern and Beck's Emblem are numerous. One question that could be raised is, "Do the price/time angles of Beck's Emblem replace traditional horizontal Fibonacci lines?" I'm sorry, but you will need to wait; the answer to that question will appear in my next book.

If you want to use the good old compass and straightedge of Euclidean geometry, you can trade just like the masters of old such as H.M. Gartley and W.D. Gann using Beck's Emblem. Let's see how we can draw the emblem on a chart with some basic drawing tools found in most technical analysis soft ware programs.

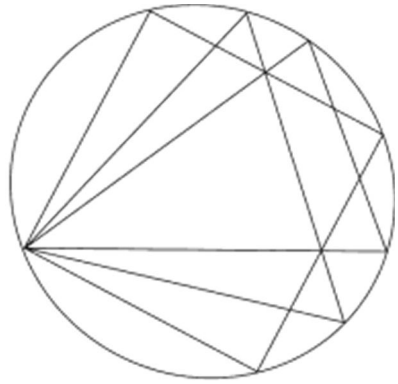

FIGURE B.5 Offset Emblem with Two Triangles

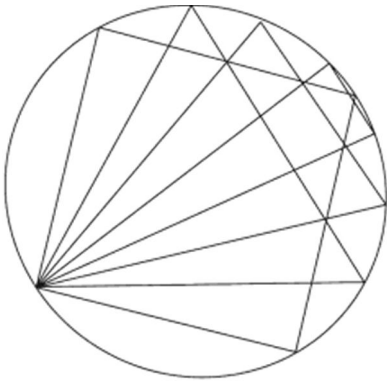

FIGURE B.6 Beck's Emblem

TCG EXAMPLE WITH BECK'S EMBLEM

The first wave of a five-wave sequence has tremendous forecasting value for the remaining waves that come out of this initial thrust. This is the "seed" or beginning of a geometric structure of growth. Following this "seed" is the typical Elliott ABC zigzag correction.

The first step in constructing Beck's Emblem is to identify the impulse phase (X-A) of the Gartley Pattern and draw a trendline from the low to the high or the high to the low. In the example shown in Figure B.7, we are drawing a geometric trendline from the high to the low. This line is the most important part of Beck's Emblem.

Once we draw a line from the beginning to the end of the impulsive phase, we are able to draw a square. In Market Analyst, you first need to draw a geometric line (not a trendline) on the impulse, then right click; under Actions, choose Make Square. This action is shown in Figure B.8.

We now have to find the center of the square so that we can draw a circle around it. Draw trend lines in the square to find the middle point, as shown in Figure B.9.

With the middle point established, we can now draw a geometric circle. To do this, click the center of the square where the trendlines cross each other and click one of the edges of the square. This should draw a circle that connects with each corner of the square, as shown in Figure B.10.

Next, we need to draw another circle. This circle must be drawn in the direction of the X-A leg. The arrows in the example in Figure B.11 show you where to click on the chart to draw the second circle. The first click is at the arrow on the right, and the next click is at the arrow on the left.

Now we draw a trendline between the two points where the circles intersect, as highlighted with the two arrow's on the chart in Figure B.12.

FIGURE B.7 Identify the "Seed" with Trendline

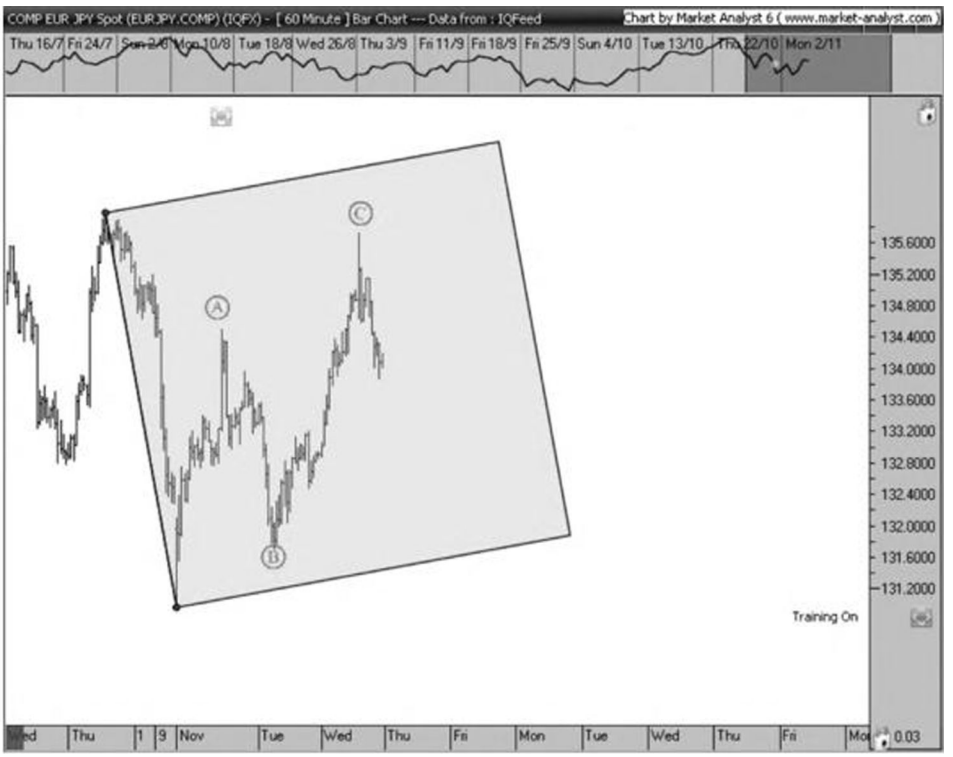

FIGURE B.8 Draw a Square

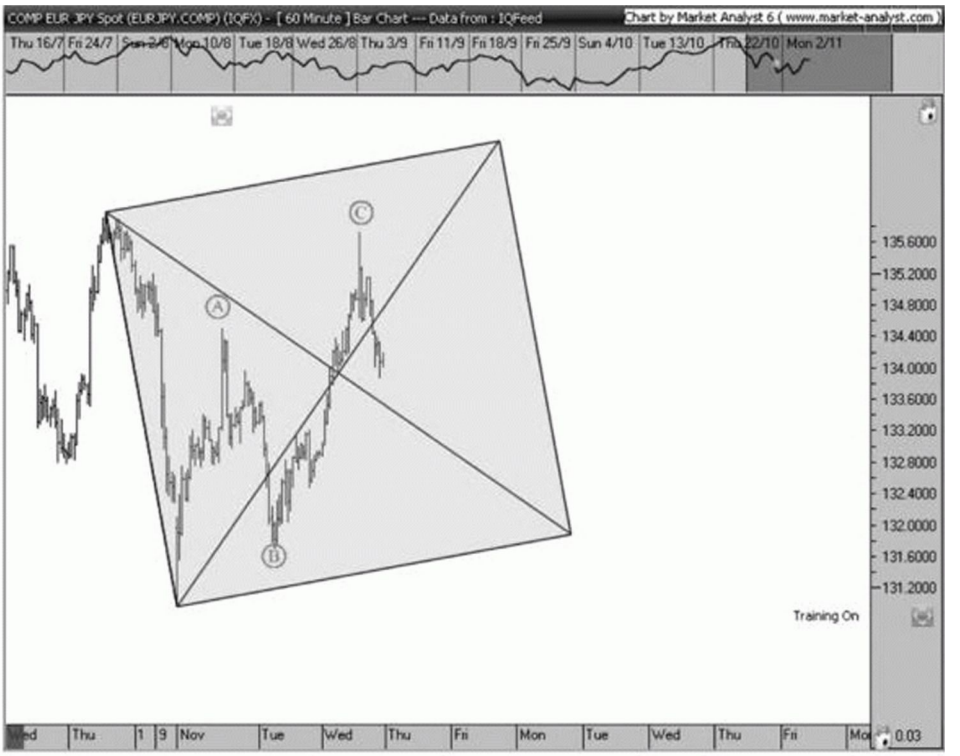

FIGURE B.9 Draw Trend Lines to Find Center

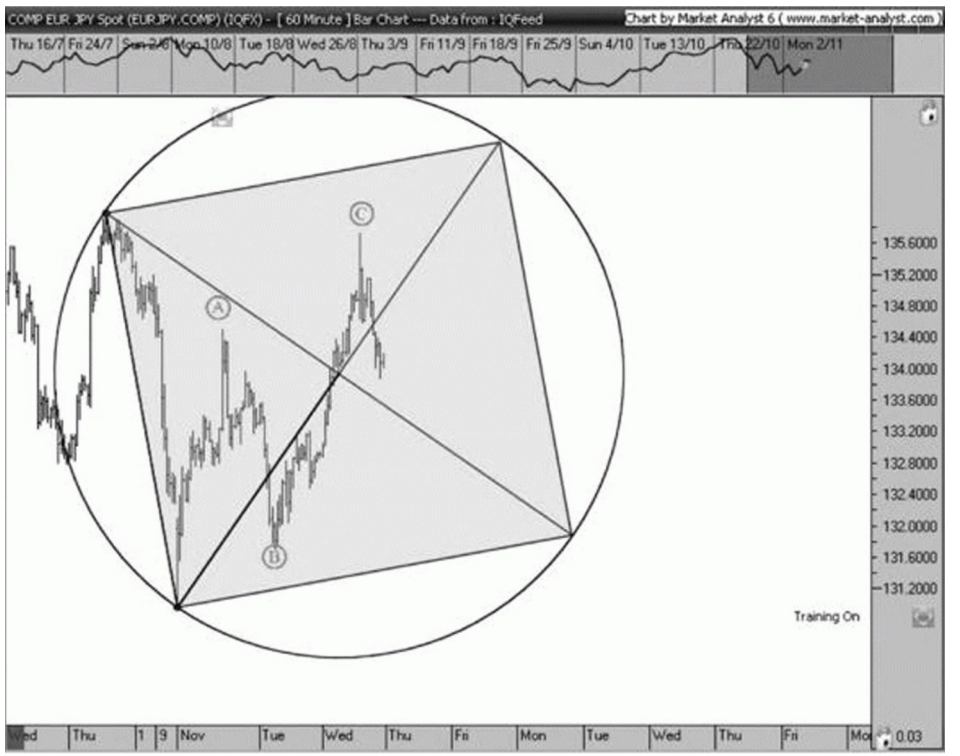

FIGURE B.10 Draw Circle Around Square

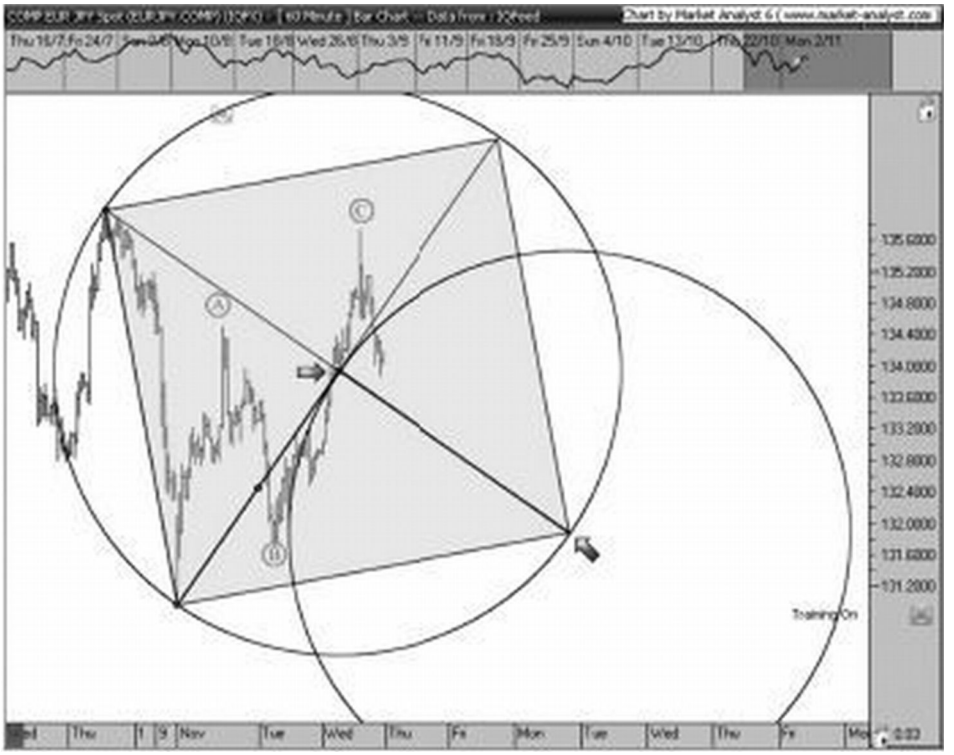

FIGURE B.11 Draw Second Circle

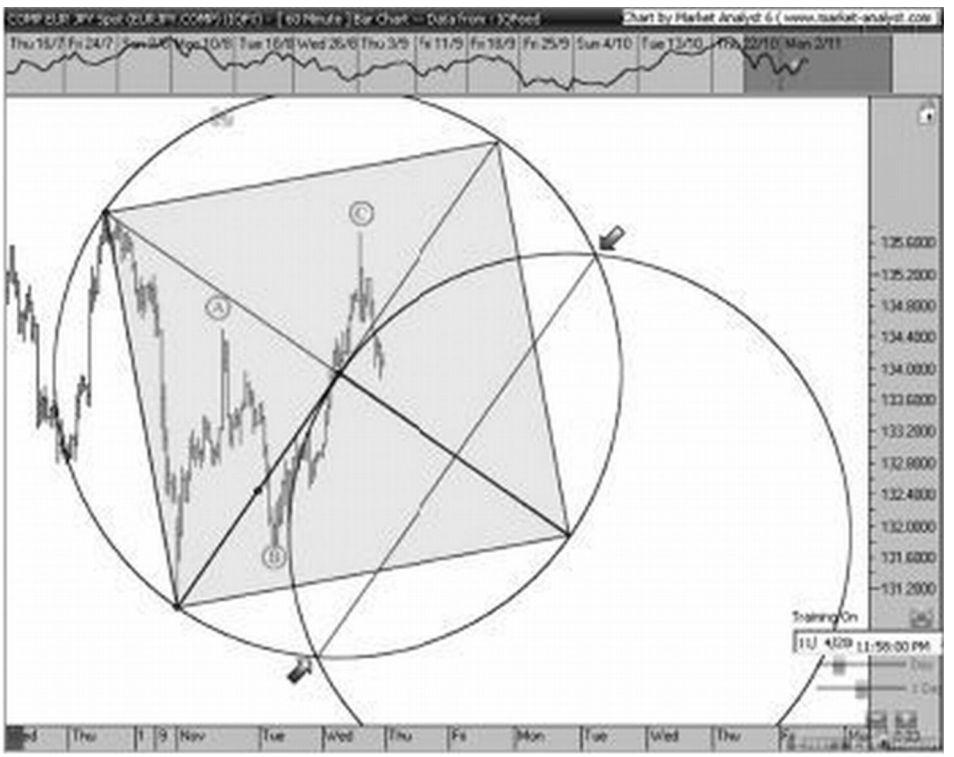

FIGURE B.12 Trendline in the "Almond"

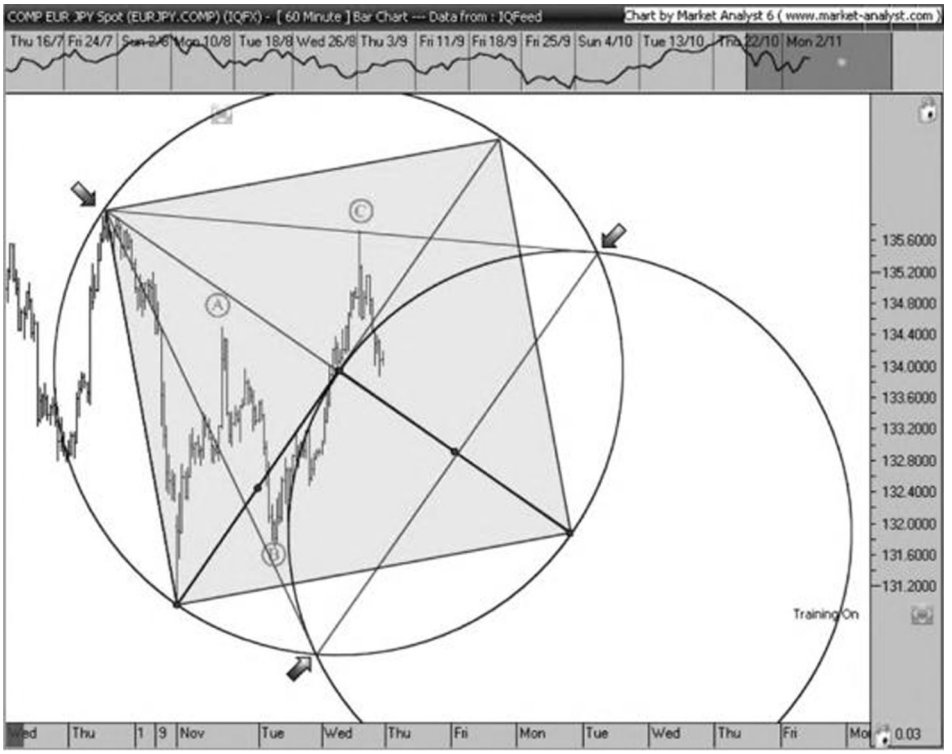

FIGURE B.13 First Triangle Visible

Students of sacred geometry will recognize the intersection of these two circles as the "Vesica Pisces" which literally means "the bladder of a fish." It is also a yonic symbol (look that one up!). The ratio between the width and length of this mandorla (Italian for almond) is the square root of 3. Now if we draw a line from the origin of the impulsive phase to the two ends of the almond, we should be able to recognize an equilateral triangle, as shown in Figure B.13.

In Figure B.13 we have now completed the geometry necessary to see "Gann's" emblem of the circle, square, and triangle. It is interesting to note that in order to draw the triangle, we had to draw the Vesica Pisces. We will leave the second circle on the chart as we continue to complete Beck's emblem.

Now we need to draw the second triangle. First, find where the triangle intersects with the lower-right quadrant of the square inside the Vesica in Figure B.14. Next draw two lines from the origin of the impulsive phase through these intersections to the edge of the first circle. Next, draw a trendline between the two end points of these trendlines to complete the second triangle, as shown in Figure B.14.

Finally, we will draw the last triangle. Find where the triangle intersects with the square inside the Vesica. Then draw trendlines from the origin of the impulsive phase,

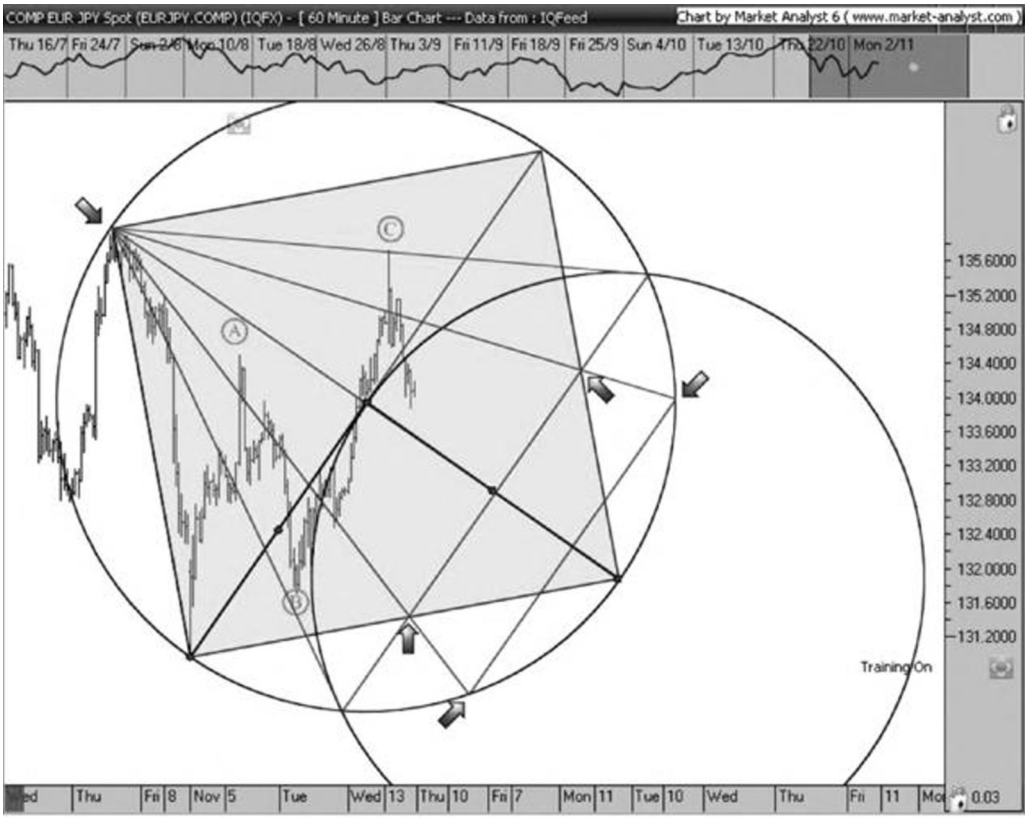

FIGURE B.14 Second Triangle

through the intersections, to the edge of the first circle. Complete the triangle by drawing a trendline between the two end points of the lines. You should now be able to identify Beck's Emblem, as shown in Figure B.15.

Now we have completed the necessary calculations for the proper triangles derived from the initial impulse. We are interested only in the triangle lines that will intersect with our quadrilateral tool. Now use the quadrilateral to tool to determine point D (end of Wave C).

In Figure B.16, we have drawn a quadrilateral as our price projection. As you can see, the tip of the quadrilateral is closest to the second triangle. The quadrilateral tells us that the reversal should be taking place at the triangle line to which it lands closest. In this case, the upper side of the second triangle will be our sell signal.

The diagonal line of our second triangle is an improvement over using a simple price retracement. Remember that diagonal lines such as trendlines have a timing element. The angle of the impulse (X-A) tells us how deep the retracement will be in price and how long a correction should take in time. The correction of the bearish TCG should

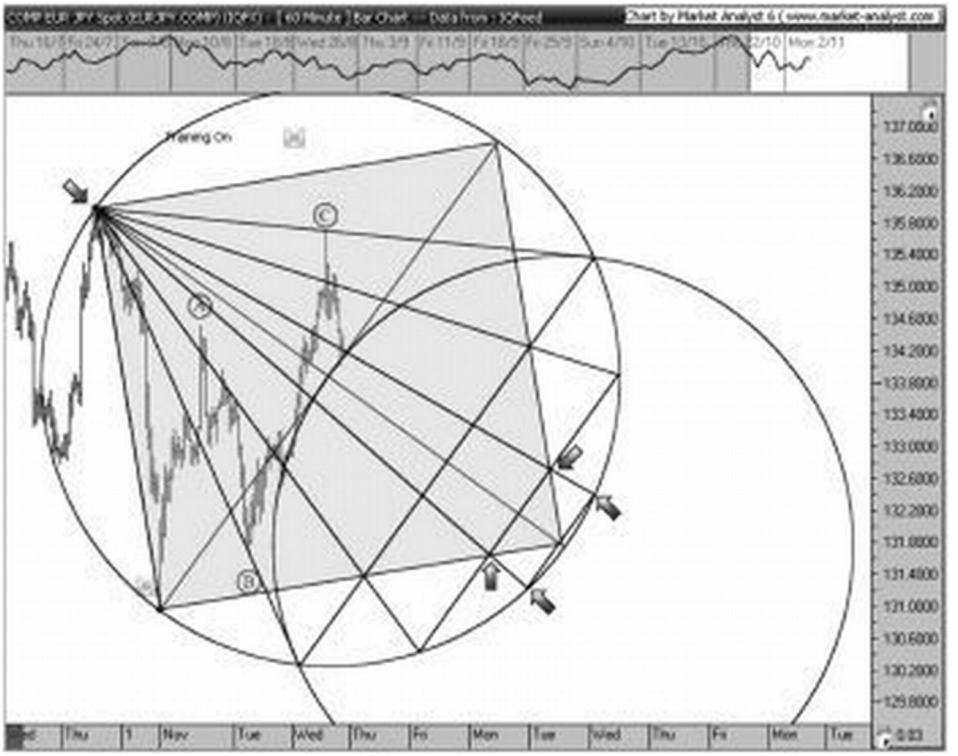

FIGURE B.15 Third Triangle

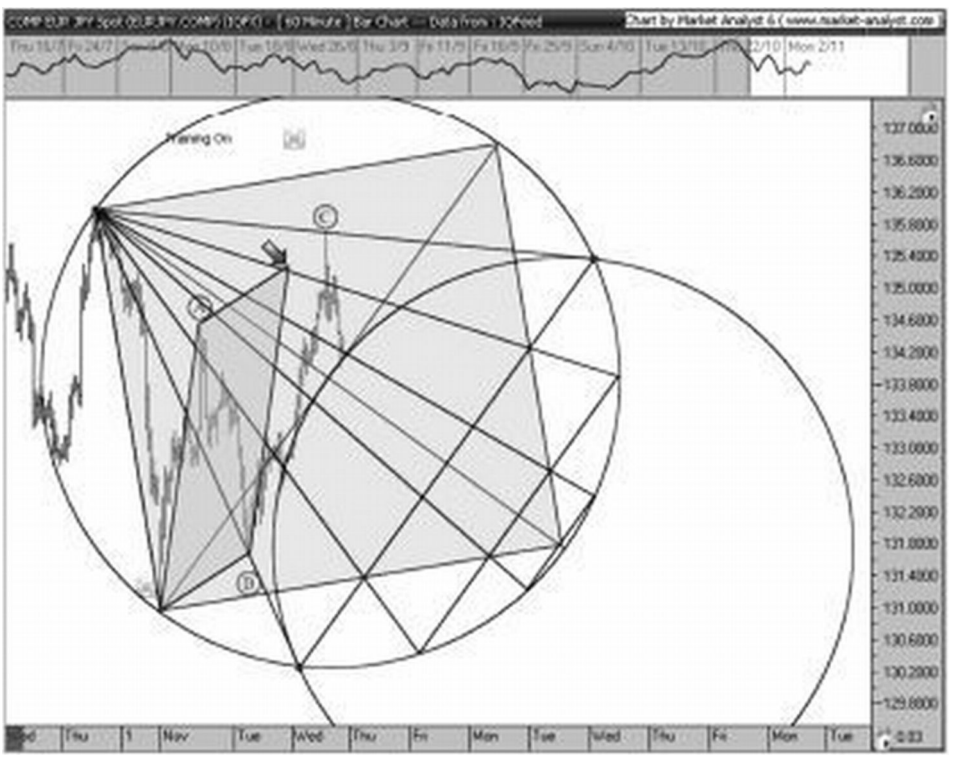

FIGURE B.16 Draw the Quadrilateral

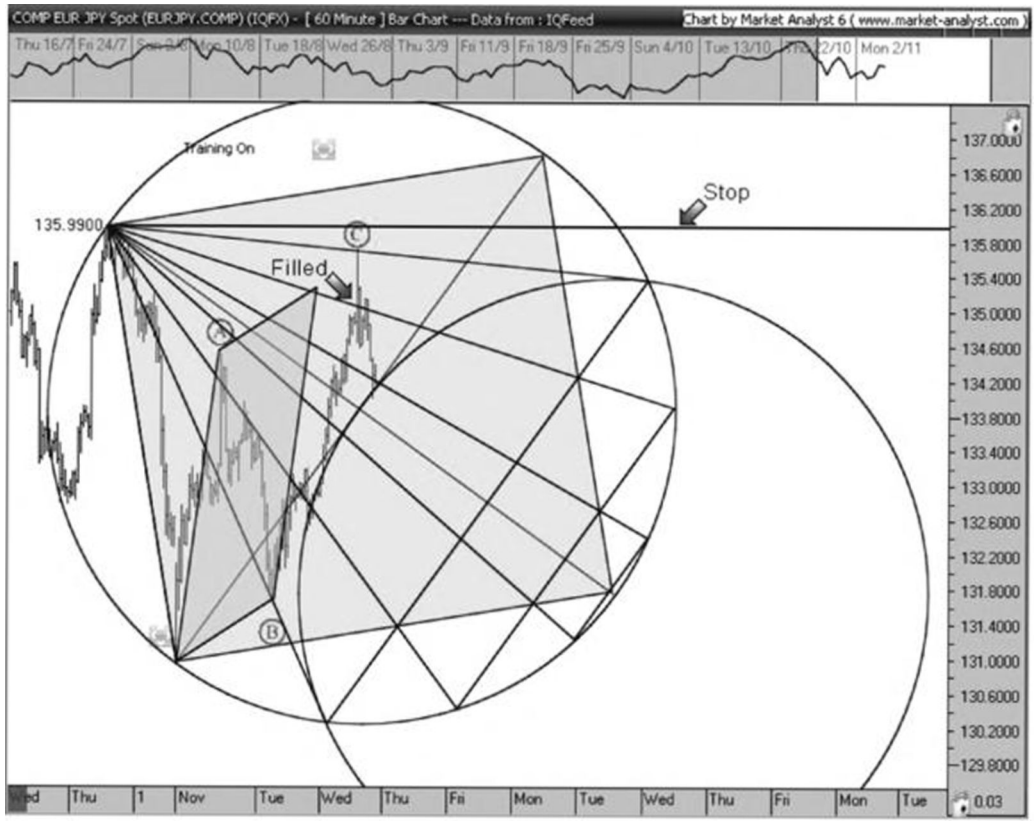

FIGURE B.17 Protective Buy Stop

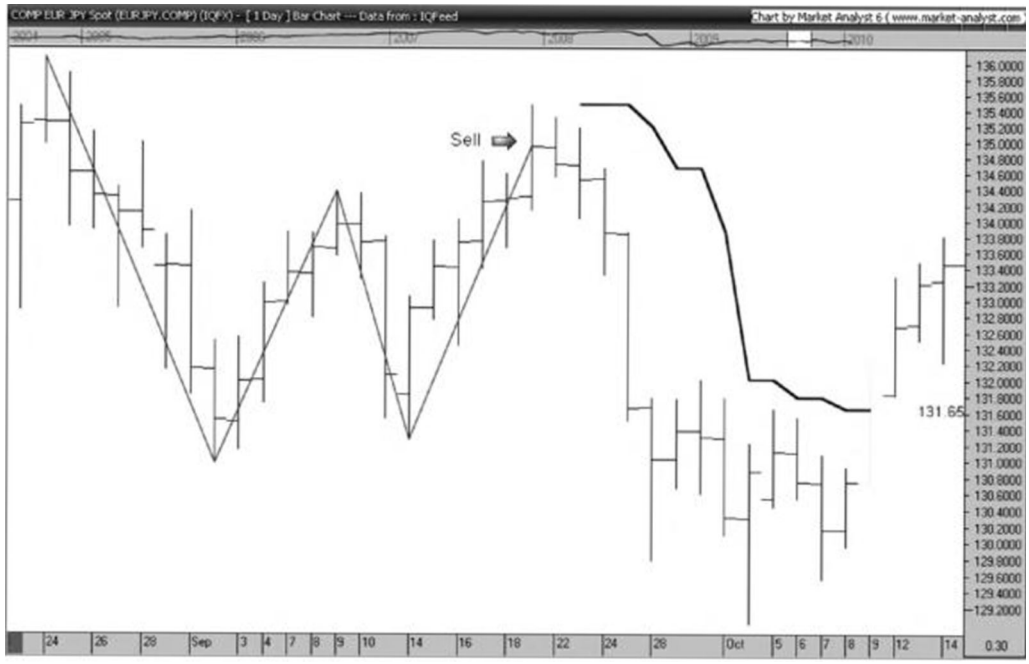

FIGURE B.18 3-Bar Trailing Stop on the Daily Chart

take place within the circle of the emblem. Therefore, there is an expiration date on this trade.

The downside of using diagonal lines instead of horizontal lines as a trigger to enter a market is that it requires more "babysitting." Why? Given that we are looking at a 60-minute chart, this means that the price of our entry will be c hanging every hour. As our triangle line is sloping down, that means that the price of our limit orders will be reduced every 60 minutes. I know this is not what some of you want to hear, but I am in the process of having the execution part of this strategy become more automated. In the meantime, if your software gives you an audible alert on a trendline, then use t hat feature.

Getting back to our example, if we were filled, where would we put our stop? In the same place that Gartley tells us to put it—at the beginning of the pattern (X). In Figure B.17, I have displayed a horizontal line to indicate where our protective buy stop should be placed.

As you can see in Figure B.17, we were filled at T2 (triangle 2). After our fill, the market declined enough to hit both of the targets of the single in/scale out strategy. Next, we would change our time frame from the 60-minute chart to the daily chart. In the chart in Figure B.18, we have applied the 3-bar trailing stop to the daily chart at the point at which we would have bought back our second contract. The resulting liquidation of our final contract based on the 3-bar trailing stop can be seen in Figure B.18.

APPENDIX C

Wolfe Wave

There is no end to the different technical methods that you can use to filter your Gartley trades further. One of the best techniques that lends itself well to the Gartley Pattern is the Wolfe Wave. The Wolfe Wave was developed by Bill Wolfe at wolfewave.com. It can be used as an additional filter to help us identify the D point of a Gartley Pattern.

The first step is to find a five-wave Elliott Wave sequence that is part of the X-A move. The next step is to identify the end of Wave 4 within the five-wave sequence. In the USD/JPY chart shown in Figure C.1 we have a bullish TRG786, and we have labeled the X-A move with a five-wave count followed by the ABC labeling of the A-D move. If you label your Gartley Pattern as we have here, always make sure that Wave A is below Wave 4; if it isn't, you can't use the Wolfe Wave.

The next step is to draw a trendline from the end of Wave 4 to the end of Wave A (point B of the XABCD labeling). Make sure that your trendline drawing tool is not set to drawing a line segment; instead, it needs to extend to the right. The result appears in Figure C.2.

Notice how the Wolfe Wave identified support at the completion of the bullish TRG786? The convergence of the tip of our quadrilateral, the price retracement line, and the Wolfe Wave line have identified a narrow band of price and time for our TRG786 to complete.

Let's look at another example involving the USD/CAD in Figure C.3. We have labeled the chart, and it looks as though we have a potential bearish TCG786. Can we use the Wolfe Wave? Just by eyeballing the chart, you should be able to answer Yes.

Now let's draw a trendline from the end of Wave 4 to the end of Wave A (point B of the XABCD labeling). As you can see in Figure CA, the market reversed within a few

FIGURE C.1 USD/JPY Bullish TRC786

FIGURE C.2 USD/JPY Bullish TRG786 with Wolfe Wave

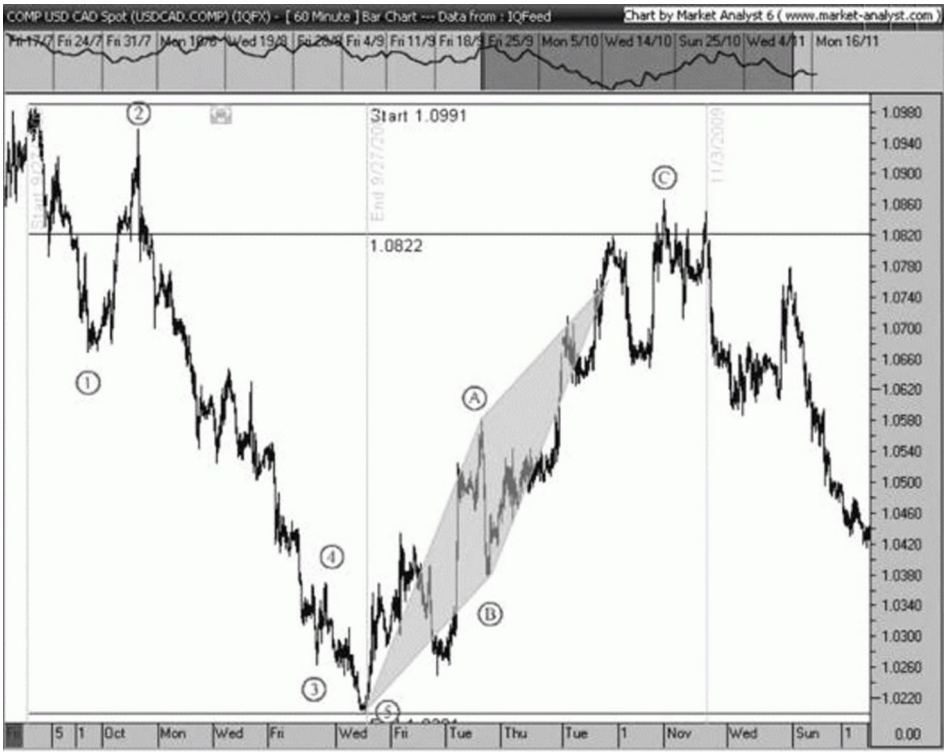

FIGURE C.3 USD/CAD Bearish TCC786

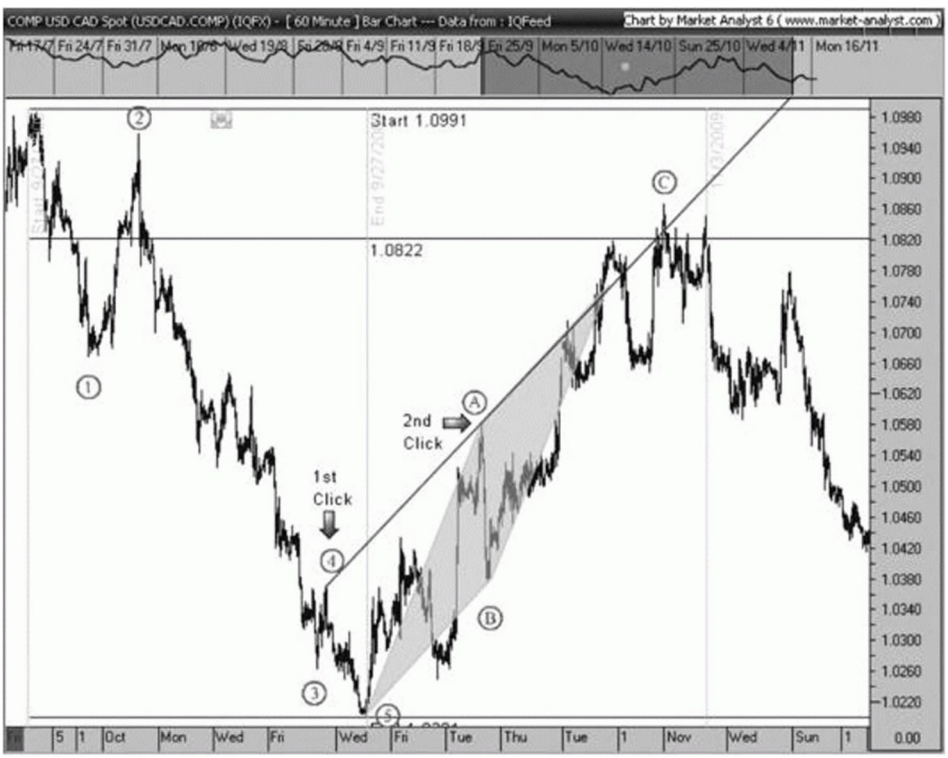

FIGURE C.4 USD/CAD Bearish TCC786 with Wolfe Wave

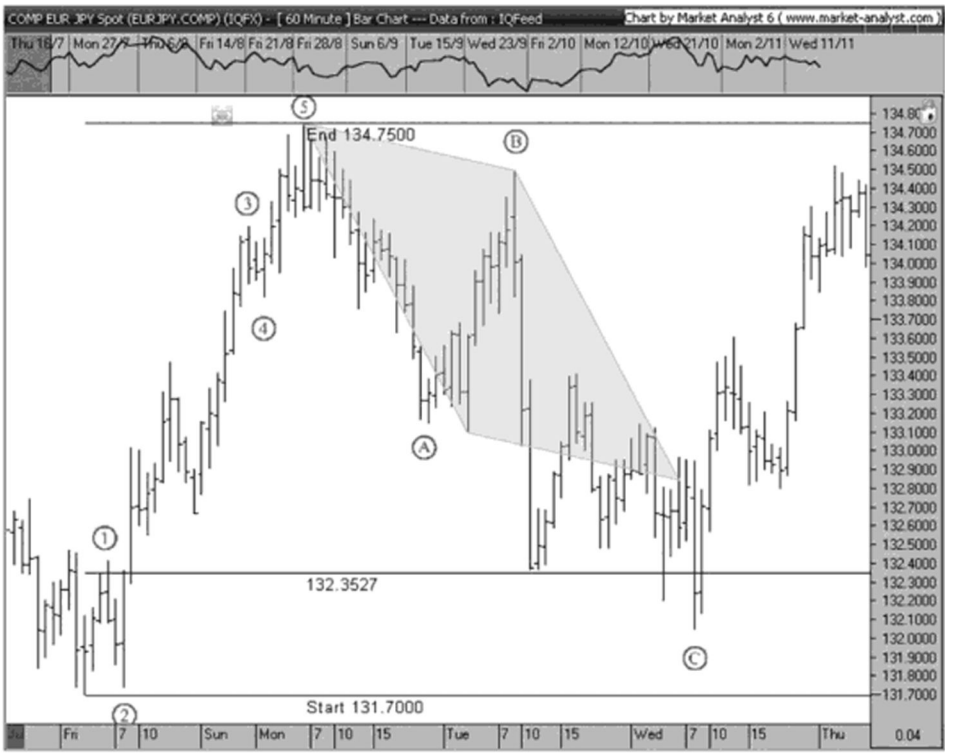

FIGURE C.5 EUR/JPY Bullish TCG786

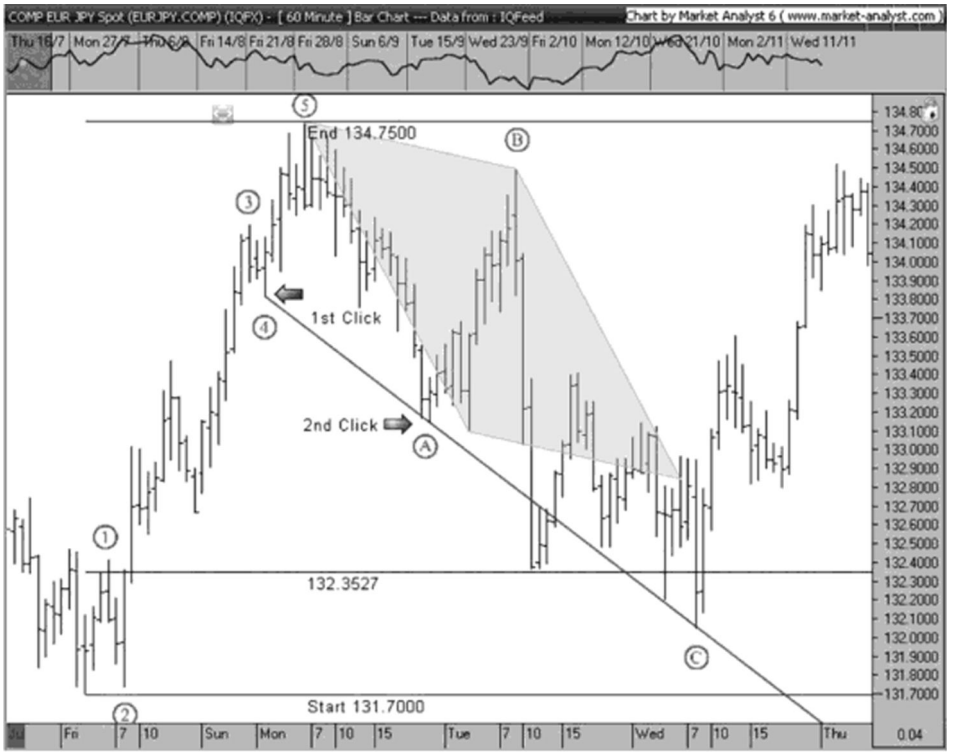

FIGURE C.6 EUR/JPY Bullish TCG786 with Wolfe Wave

hours of the intersection of our Wolfe Wave line and the 78.6 percent retracement line at 1.0822.

Here is one last example. We have a bullish TCG786 with the Wolfe Wave on a 60-minute EUR/JPY chart. The chart in Figure C.5 already has the Elliott Wave labels applied for us. Do you remember how to draw the Wolfe Wave trendline?

Draw the line between the end of Wave 1 and the end of Wave A. As you can see in Figure C.6, the EUR/JPY found support at our Wolfe Wave line as expected.

The low at the end of Wave C was made exactly on the Wolfe Wave line. Also notice in Figure C.6 how the contribution of time analysis from the quadrilateral told us that a low was imminent.

Students often ask. "Will you trade a Gartley without a Wolfe Wave being present?" The answer is Yes. However, if there are two Gartley patterns that look similar and you have to make a decision between the two, look to see whether there is a Wolfe Wave present on one of the charts. If so, choose the Gartley Pattern with the Wolfe Wave.

Glossary

A

AB = CD A label created by Larry Pesavento based on page 249 of H.M. Gartley's book *Profits in the Stock Market.*

ABC Zigzag R.N. Elliott's term for a simple corrective phase.

Advantage Gambling Using legal ways to gain a mathematical advantage while gambling. Poker is an example of advantage gambling; players with the most skill usually win.

Alchemy From the Arabic *Al-kimi.* Attempting to turn base metals into gold in a physical or philosophical sense.

Alternative Elliott Wave Count The way an Elliott Wave guru can always be "right."

Arithmetic Scaling Equidistant price intervals on the *y* axis of a price chart.

B

Bearish Expecting market weakness.

Beck's Emblem The Gann emblem of circle, square, and triangle with two additional triangles added. The triangle lines are used to determine support and resistance levels.

Black Box A trading system, which is available for purchase, that generates trading signals. The "secret" as to how the signals are generated is known only by the vendor.

Bullish Describing the optimism the investing public feels during a period of share price strength.

C

Calendar Day Charts Charts that include spaces for "weekend trading." Useful for time analysis.

Candlestick Entry Method Using a Japanese candlestick formation to enter the market at the completion of a Gartley Pattern.

Cluster When price and time projections land close to each other or converge.

Continuous Chart A futures chart that combines expiring contract months to create a longer term chart.

Contract A trading unit of a derivative product.

Contracting Geometric Series 1.00, .786, .618, .486, .382. A series introduced to the trading world by Bryce Gilmore in *Geometry of the Markets II.*

Corrective Phase The term used by R.N. Elliott to describe a counter trend—typically three waves.

Counter Trend A temporary movement against the underlying direction of the market.

CTA Commodity Trading Advisor. A registration category as defined by the National Futures Association.

Day Trader A trader who typically trades off of intraday data and doesn't hold positions overnight.

Derivatives Financial instruments or contracts *derived* from another asset. Futures and options are examples of derivatives.

Divination Attempting to foretell the future through contact with a supernatural agency.

Double Top/Double Bottom A chart formation where there is a retest of a previous high or low.

Drawdown The decline in value of a trading account measured from the most recent equity high.

Dynamic From the Greek word for power. Further definition relates to objects in motion and continuous change. The opposite of static.

E

ED Entry dysfunction. Entering a position and getting stopped out, only to watch the market move in the direction that you thought it would.

Ego Greek for "I." A person's ego is the biggest obstacle to trading success.

Elliott, R.N. Technical analyst who wrote *The Wave Principle* in 1938 and father of Elliott Wave theory.

Elliott Wave A theory that future movements in the financial markets are predictable based on a repetitive series of waves. Trends are 5-wave structures and counter trends are typically 3-wave structures.

Entry Opening a position, not to be confused with a setup.

EWOCD Elliott Wave obsessive compulsive disorder. A trader who has a need to label every chart he sees with Elliott Wave labels.

Exit Closing an open position.

F

Fib Abbreviation of Fibonacci.

Fibonacci Name of an Italian mathematician from the 13th century who identified a series of numbers that relate to each other by the golden ratio of 1.618.

Fibonacci Entry Method Using the price indicated by a Fibonacci ratio to enter the market at the completion of a Gartley Pattern.

Financial Pornography Sensational advertising of trading systems.

Fundamental Analysis Using information about such things as the economy, interest rates, production, and earnings to determine the future price action of a financial instrument.

Futures Financial instruments that are valued based on a future price.

G

G222 The term used by Larry Pesavento for the Gartley Pattern. The picture of the pattern appears on page 222 of Gartley's book *Profits in the Stock Market.*

Gambling Placing a wager on an uncertain event that has a monetary outcome within a limited period of time.

Gann Box A drawing tool that creates a box with user-defined time and price ratios. Angles within the box identify support and resistance levels.

Gann Emblem A circle with a square and a triangle inside of it. Invented by Billy Jones.

Gann Fan A drawing tool that creates a fan of angles that originate at a user-defined high or low. Angle lines identify support, and resistance levels.

Gann, W.D. Legendary stock and commodity trader (1878-1955), author, and educator. Used natural law and geometric proportion to identify trading opportunities.

Gartley, H.M. Prominent Wall Street technician (1899-1972) and author *of Profits in the Stock Market.*

Gartley Pattern Pattern based on what II.M. Gartley described as "One of the Best Trading Opportunities" on pages 221 and 222 of his book *Profits in the Stock Market.*

H

Harami A Japanese candlestick pattern. Ilarami means "pregnant" in Japanese.

Head and Shoulders A chart formation that resembles a head and two shoulders.

Hobby An activity that generates a negative rate of return.

Hopium The figurative product that a trader smokes, and is stupefied by, when he keeps holding a bad position and "hopes" that it will work.

Holy Grail A mechanical trading system that never loses and imparts everlasting life (in the financial markets) to the trader that finds it.

I

Impulsive Phase The term used by R.N. Elliott to describe a trend, typically one having five waves.

Indicator A mathematical calculation of historical prices to predict future prices. Usually displayed as a colorful squiggly line on the bottom of the chart Provides limited forecasting value.

Inside Bar A price bar whose range is within or inside the range of the bar that immediately precedes it

J

Japanese Candlesticks A method of drawing price data on a chart. Each candlestick is equivalent to a bar of data and represents the open, high, low, and close with an emphasis between the opening and closing prices.

L

Labeling Using letters on a price chart to identify specific waves, legs, or swings of a price pattern.

Lagging Indicator An indicator that confirms the direction of the market after the fact.

Leading Indicator An indicator that predicts the direction of the market in advance.

Limit An order to buy or sell at a specific price that is better than the current price.

Liquidate To close out open positions.

Logarithmic Scaling A scale that uses the logarithm of a quantity instead of the quantity itself. For example equally spaced divisions on the price axis of a chart are labeled as 1, 10, 100, 1,000, instead of 1, 2, 3, 4.

Long Term to describe a trader's open position after purchasing a financial product.

Loser A word that novice traders use to describe themselves after a liquidating a losing position. Professionals don't take trading losses personally.

Lot One contract.

Lottery Ticket Contract The last contract of the single in/scale out strategy.

M

Mandorla Italian for almond. Used to describe the intersection of the two circles used to draw Gann's emblem and Beck's emblem.

Market Analyst Advanced technical analysis software developed in Australia.

Martingale A gambling system that doubles a bet after every loss so that when there is a win, all losses are won back, along with the amount of the initial bet.

Mechanical A style of entering orders in the financial markets based on a predetermined set of criteria, rather than emotion.

Mirage Seeing a trade opportunity that doesn't exist.

N

Nausea The feelings often associated with liquidating losing positions. This negative reaction causes novice traders to avoid learning how to improve their exit strategies.

NFA National Futures Association—the self-regulatory organization for the U.S. futures industry

O

Objective Based on reality, not influenced by personal perspective. Opposite of subjective.

Offset Angles Drawing angles on a chart based on the current slope of the trend as opposed to a historical price and time ratio.

One-Bar Reversal Entry Method Using the low (for short trades) or high (for long trades) of the previous bar to enter the market at the completion of a Gartley Pattern.

Oscillator A trend indicator that oscillates above and below a zero line. Used to identify overbought and oversold conditions.

OHLC A bar of price data that represents open, high, low, and close prices.

Ordo ab Chao Latin for "Out of chaos comes order." An axiom of the fraternity of Masons and a reminder that a price chart initially looks like chaos until we look for symmetry, geometry, and proportion.

Overbalance W.D. Gann discussed the overbalance of price and time. For example, an overbalance of price would occur if the current rally exceeds the range on the previous rallies in a bear market

Pesavento, Larry Trading author and educator from Tucson, AZ. The first to coin the terms Gartley Pattern and G222.

Philosophers' Stone Mentioned by KM. Gartley on page 1 of *Profits in the Stock Market.* The legendary substance of alchemy that allows the user to turn base metals to gold.

Position Trader A trader that typically holds a position or an open trade for weeks to months and sometimes years.

Price Extension A drawing tool that compares the proportional relationships between two legs on a price chart that are moving in the same direction

Price Retracement A drawing tool that compares the proportional relationships between a trend leg and its connecting counter-trend leg.

Professional A person who performs commercially in a field typically reserved for hobbyists or amateurs. This word is a reminder that if you treat trading as a hobby, it will pay you as a hobby. Treat trading as a profession.

Pulling the Trigger Entering a position in the financial markets.

Quadrilateral A polygon with four sides. *Used* as a price-extension drawing tool.

R

Risk Management An often overlooked subject that could be the real holy grail of trading.

S

Sacred Geometry A belief that geometry is found in everything. Typically found in nature, religious art and architecture, but also appears on price charts of financial markets.

Scale Measurement based on a numerical sequence.

Scale In/Single Out Entering a market at intervals of varying degrees and liquidating them at a single price for a profit. A Martingale with a cap.

SEC Securities and Exchange Commission. The mission of the U.S. Securities and Exchange Commission is to protect investors; maintain fair, orderly, and efficient markets; and facilitate capital formation.

Setup When the trade criteria of a trading plan is fulfilled. The setup is the precursor to order entry.

Short Term to describe a trader's open position after selling a financial product with the intent of buying it back later for a profit.

Single In/Scale Out Entering a market with multiple contracts at the same price and liquidating them at intervals of varying length.

Software Computer code written by imperfect humans. Software can help a trader make a decision, but it should never *make* the decision. "Black box" trading systems that generate automatic trading signals exemplify how decision making is taken away from the individual.

Spot Cash market.

Square-Root Scaling A scale that uses the square root of a quantity instead of the quantity itself. For example equally spaced divisions on the price axis of a chart are labeled as 1, 4,9, 16, instead of 1, 2,3, 4.

Static Unable or unwilling to change.

Stochastic Oscillator Momentum indicator developed by Dr. George Lane in the 1950s.

Stop Order An order to liquidate a position at the market if the market trades at the stop price.

Subjective Personal perspective. Elliott Wave is a subjective technical method.

Swing Chart Overlay An indicator that draws a line between the extreme highs and lows of a price chart.

Swing Trader A trader who typically holds a position from a few days to a few weeks.

T

TCG Trend-continuation Gartley Pattern. A new acronym to describe a Gartley Pattern that completes once a trend has already been established.

Technical Analysis Using historical price data to determine future price action.

Technical Indicator Entry Mel hod Using a technical indicator to enter the market at the completion of a Gartley Pattern.

Three-Bar Trailing Stop A trailing stop that uses the highest high (short trades) or the lowest low (long trades) of the previous three bars (except inside bars) as the location for a protective stop order.

Trading Journal A journal of trading results. The journal should include charts with exact entry and exit points and a specific profit or loss result.

Trading Plan The "mission statement" of a trader. This includes not just the trader's philosophy but his rules.

Trading System A method of trading that typically is computer or software dependent and developed for private use or for sale. Some are fully disclosed, and some are "black boxes."

Trailing Stop A stop order that is moved incrementally in the direction of a profitable trade.

Trend A significant directional move in the financial markets that typically conforms to the rules of an Elliott Wave impulsive phase.

Trendline A line drawn on a price chart that is typically diagonal. Identifies trends and trend reversals.

TRG Trend-reversal Gartley Pattern. A new acronym to describe a Gartley Pattern that completes when a trend is reversing.

V

Vesica Pisces Literally, "bladder of a fish" in Latin. The intersection of two circles of the same radius.

Volume An indicator that displays the number of transactions that take place on an exchange.

W

Weekend Trading Trading decisions that are made on the weekends but are not executed until exchanges are physically open.

White Space Right, side of the chart, the future. The technician's canvas.

Wolfe Wave A method to determine the end of a corrective phase developed by Bill Wolfe. For more information, go to wolfewave.com

W-X A new label that identifies the leg prior to the XABCD pattern.

X

X Axis The horizontal axis displaying time on a price chart.

Y

Y Axis The vertical axis displaying price on a price chart..

Z

Zigzag Indicator An indicator that draws a line between the extreme highs and lows of a price chart.

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The Market Analyst Beck Toolkit

Market Analyst International Pty Ltd (MA) is an Australian company based in Brisbane, Australia. I recently traveled to Australia to visit Mathew Verdouw and his team. I have to admit that I've never seen a group of individuals so passionate about providing cutting-edge technology to market technicians. If you haven't ret seen the technology that Tom Cruise was using in the movie *Minority Report* applied to technical analysis, stay tuned!

The programmers at MA were kind enough to create the Beck Toolkit for me. The Market Analyst Beck Toolkit includes the following tools:

- Beck's Emblem.
- Gartley Pattern Identifier.
- Gartley Pattern Scanner.
- X Bar Trailing Stop.
- Single In/Scale Out Profit and Stop Levels.

Rather than drawing Beck's emblem as we did in Appendix B, the toolkit from Market Analyst draws it with two clicks. In addition, the Gartley Pattern Identifier searches for TCGs and TRGs, including the W-X leg.

For a free trial of Market Analyst Software with the Beck Toolkit, go to www.geometrictrading.com

About the Author

Ross Beck, FCSI, is a world-renowned public speaker on the subject of technical analysis and has written for numerous trading publications. As the recognized authority on the subject of the Gartley Pattern, Ross has been consulted by a number of technical analysis software companies to assist them in the creation of Gartley Pattern functionality. Ross is a member of the Market Technicians Association, a DMS (Derivatives Market Specialist), and an FCSI (Fellow of the Canadian Securities Institute). The FCSI designation is the top award offered by the Canadian Securities Institute and is reserved solely for professionals who meet the highest standards for education, ethics, and industry experience.

Ross is an avid student of history, music, philosophy, and religion. He lives with his wife Lindsay in Point Roberts, Washington, with their two cats, Lily and Sabbath.